

FINANCIAL AUDIT  
INCLUDING THE PROVISIONS OF THE SINGLE AUDIT ACT  
OF THE

DEPARTMENT OF COMMUNITY HEALTH

October 1, 1997 through September 30, 1999

## EXECUTIVE DIGEST

# DEPARTMENT OF COMMUNITY HEALTH

INTRODUCTION	This report contains the results of our financial audit* , including provisions of the Single Audit Act, of the Department of Community Health (DCH) for the period October 1, 1997 through September 30, 1999.
AUDIT PURPOSE	This financial audit of DCH was conducted as part of the constitutional responsibility of the Office of the Auditor General and is required on a biennial basis by Act 251, P.A. 1986, to satisfy the requirements of the Single Audit Act Amendments of 1996 and U.S. Office of Management and Budget (OMB) Circular A-133, <i>Audits of States, Local Governments, and Non-Profit Organizations</i> .
BACKGROUND	The Department of Mental Health was created by the Executive Organization Act of 1965. Effective April 1, 1996, the former Department of Mental Health was renamed the Department of Community Health. DCH is generally comprised of the former Departments of Mental Health and Public Health, the Medical Services Administration (transferred from the Family Independence Agency), and several programs transferred from the Department of Management and Budget (DMB). DCH's mission* is to provide for the general supervision of the health and physical well-being of Michigan citizens.

\* See glossary at end of report for definition.

This audit includes both the Office of Services to the Aging and the Crime Victims Compensation Commission. These programs were transferred from DMB to DCH by Executive Orders 1997-5 and 1997-10, respectively, during fiscal year 1996-97.

The Budget and Finance Administration is responsible for budget, accounting, and financial and grant reporting. Primary responsibility for grant management is with the various units carrying out the grant activities.

For fiscal year 1998-99, DCH averaged 5,810 full-time equated employees, including 4,318 employees in mental health facilities. DCH had 1,211 adults and 112 children in State psychiatric hospitals, 275 residents in centers for developmental disabilities, and 252 patients at specialized facilities for a combined total of 1,850 patients and residents as of September 30, 1999.

DCH financial transactions were accounted for principally in the General Fund. DCH net expenditures and operating transfers out for the fiscal years ended September 30, 1999 and September 30, 1998 were \$7.1 billion and \$6.8 billion, respectively.

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**AUDIT OBJECTIVES  
AND CONCLUSIONS**

**Audit Objective:** To audit DCH's financial schedules, including the schedule of expenditures of federal awards, and the Hospital Patients' Trust Fund financial statements as of and for the fiscal years ended September 30, 1999 and September 30, 1998.

**Conclusion:** We expressed an unqualified opinion\* on DCH's financial schedules and financial statements. In

\* See glossary at end of report for definition.

**addition, we expressed an unqualified opinion on DCH's supplemental financial schedules, including the schedule of expenditures of federal awards, in relation to the financial schedules taken as a whole.**

**Audit Objective:** To assess and report on DCH's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the financial schedules or financial statements, and on its internal control\* over financial reporting, based on our audit of the financial schedules and financial statements.

**Conclusion:** Our assessment of compliance did not disclose any instances of noncompliance that could have a direct and material effect on the financial schedules or financial statements. Also, our assessment of internal control over financial reporting did not disclose any material weaknesses\* . However, we identified reportable conditions\* related to the recording of revenues, the Medicaid accrual, cash management, use of State funds, personnel and payroll internal control, encumbrances, the schedule of expenditures of federal awards, and internal auditor functions (Findings 1 through 8).

**In addition, our assessment indicated that DCH was in substantial compliance with the requirements set forth in Sections 18.1483 - 18.1488 of the *Michigan Compiled Laws* pertaining to its systems of internal accounting and administrative control.** However, we identified a reportable condition related to internal auditor functions (Finding 8). Also, the internal auditor did not report to the DCH director. DCH reorganized subsequent

\* See glossary at end of report for definition.

to the audit period so that the internal auditor reported to the DCH director.

**Audit Objective:** To assess and report on DCH's compliance with requirements applicable to each major federal program and on its internal control over compliance in accordance with OMB Circular A-133.

**Conclusion: Our assessment of compliance applicable to each major federal program disclosed instances of noncompliance that are required to be reported under OMB Circular A-133.** These related to School Based Outreach Services, home health care, personnel-payroll cost distributions, special adjustor payments, the Medicaid Management Information System (MMIS), and the Maternal and Child Health Services Block Grant to the States (MCH) (Findings 9 through 14). **However, our assessment of internal control over compliance applicable to each major federal program did not disclose any material weaknesses.** We did identify reportable conditions related to home health care, personnel-payroll cost distributions, special adjustor payments, MMIS, and MCH (Findings 10 through 14).

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#### AUDIT SCOPE

Our audit scope was to examine the financial and other records of the Department of Community Health for the period October 1, 1997 through September 30, 1999. Our audit was conducted in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

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AGENCY RESPONSES  
AND PRIOR AUDIT  
FOLLOW-UP

Our audit report includes 12 findings (Findings 1 through 9, 11, 12, and 14) with 14 corresponding recommendations. DCH's corrective action plan indicates that it generally agrees with the findings and recommendations. The plan also indicates that DCH has initiated corrective action for the recommendations. In addition, our report contains 2 findings (Findings 10 and 13) that refer to findings in other reports that have reported questioned costs. DCH agreed with these findings.

As disclosed in DCH's summary schedule of prior audit findings, DCH fully corrected 2 of the 7 prior Single Audit\* findings and did not correct or partially corrected 5 of the findings. One prior audit recommendation is repeated in this audit report (see Finding 11.

\* See glossary at end of report for definition.

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October 26, 2000

Mr. James K. Haveman, Jr., Director  
Department of Community Health  
Lewis Cass Building  
Lansing, Michigan

Dear Mr. Haveman:

This is our report on the financial audit, including the provisions of the Single Audit Act, of the Department of Community Health for the period October 1, 1997 through September 30, 1999.

This report contains our executive digest; description of agency; audit objectives and conclusions, audit scope, and agency responses and prior audit follow-up; schedule of findings and questioned costs; and independent auditor's reports on the financial schedules, on the financial statements, on compliance and on internal control over financial reporting, and on compliance with requirements applicable to each major program and on internal control over compliance in accordance with U.S. Office of Management and Budget Circular A-133. This report also contains the Department of Community Health financial schedules, the Hospital Patients' Trust Fund financial statements, and notes to the financial schedules and financial statements; supplemental financial schedules; other required schedules; and a glossary of acronyms and terms.

Our findings and recommendations are organized by audit objective. The agency preliminary responses are contained in the corrective action plan. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

We appreciate the courtesy and cooperation extended to us during this audit.

Sincerely,

Thomas H. McTavish, C.P.A.  
Auditor General



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## Description of Agency

The Department of Mental Health was created by the Executive Organization Act of 1965. Effective April 1, 1996, the former Department of Mental Health was renamed the Department of Community Health (DCH). DCH is generally comprised of the former Departments of Mental Health and Public Health, the Medical Services Administration (transferred from the Family Independence Agency), and several programs transferred from the Department of Management and Budget (DMB).

DCH's mission is to provide for the general supervision of the health and physical well-being of Michigan citizens. The DCH director is appointed by the Governor with the advice and consent of the Senate.

This audit includes both the Office of Services to the Aging and the Crime Victims Compensation Commission. These programs were transferred from DMB to DCH by Executive Orders 1997-5 and 1997-10, respectively, during fiscal year 1996-97. Because both programs were included in the DMB Single Audit through September 30, 1997, the prior DCH Single Audit excluded these programs.

As of September 30, 1999, DCH was organized into the following major organizational units:

- Medical Services Administration
- Mental Health and Substance Abuse Services
- Community Public Health
- Community Living, Children and Families
- Budget and Finance Administration
- Women, Infants, and Children Division
- Office of Drug Control Policy
- Office of Services to the Aging
- Health Legislation and Policy Development

The Medical Services Administration provides health care coverage to 1.1 million Michigan residents who are eligible for Medicaid coverage and Children's Special Health Care Services under federal guidelines and the State Medical Care Program.

Mental Health and Substance Abuse Services provides mental health services for people who have a mental illness or a developmental disability and services for people who need care for substance abuse. During the period covered by our audit, DCH operated nine facilities for the treatment of the mentally ill and the developmentally disabled. DCH also administers the Community Health Services Program. DCH provides reimbursement to 49 locally operated community mental health services programs and service providers that provide approved local mental health services programs.

Community Public Health provides laboratory services, helps control communicable diseases, and maintains the State's vital records and other health statistics.

Community Living, Children and Families provides funding for diagnostic and treatment services to children with special health care needs and health care for mothers, infants and children, including family planning and prenatal care.

The Budget and Finance Administration is responsible for budget, accounting, and financial and grant reporting. Primary responsibility for grant management is with the various units carrying out the grant activities. Mental health facilities process their own financial and personnel-payroll transactions. DCH centrally processes all other transactions in addition to providing overall policy, administrative, and operational leadership.

The Women, Infants, and Children (WIC) Division administers the federally funded WIC Program. This Program provides supplemental nutritious food and nutrition education to eligible low-income persons.

The Office of Drug Control Policy administers federal funds for law enforcement, treatment, education, and prevention programs.

The Office of Services to the Aging develops policies, programs, and services to promote independence and enhance the dignity of Michigan's older persons.

Health Legislation and Policy Development provides support to the DCH director and is responsible for the Administrative Council, legal affairs, administrative rules, health

legislation and policy development, certificate of need standards, and community health assessments.

For fiscal year 1998-99, DCH averaged 5,810 full-time equated employees, including 4,318 employees in mental health facilities. DCH had 1,211 adults and 112 children in State psychiatric hospitals, 275 residents in centers for developmental disabilities, and 252 patients at specialized facilities for a combined total of 1,850 patients and residents as of September 30, 1999.

DCH financial transactions were accounted for principally in the General Fund. DCH net expenditures and operating transfers out for the fiscal years ended September 30, 1999 and September 30, 1998 were \$7.1 billion and \$6.8 billion, respectively.

Audit Objectives and Conclusions, Audit Scope,  
and Agency Responses and Prior Audit Follow-Up

Audit Objectives and Conclusions

Our financial audit, including the provisions of the Single Audit Act, of the Department of Community Health (DCH) had the following objectives:

1. To audit DCH's financial schedules, including the schedule of expenditures of federal awards, and the Hospital Patients' Trust Fund financial statements as of and for the fiscal years ended September 30, 1999 and September 30, 1998.

**We expressed an unqualified opinion on DCH's financial schedules and financial statements. In addition, we expressed an unqualified opinion on DCH's supplemental financial schedules, including the schedule of expenditures of federal awards, in relation to the financial schedules taken as a whole.**

2. To assess and report on DCH's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the financial schedules or financial statements, and on its internal control over financial reporting, based on our audit of the financial schedules and financial statements.

**Our assessment of compliance did not disclose any instances of noncompliance that could have a direct and material effect on the financial schedules or financial statements. Also, our assessment of internal control over financial reporting did not disclose any material weaknesses.** However, we identified reportable conditions related to the recording of revenues, the Medicaid accrual, cash management, use of State funds, personnel and payroll internal control, encumbrances, the schedule of expenditures of federal awards, and internal auditor functions (Findings 1 through 8).

**In addition, our assessment indicated that DCH was in substantial compliance with the requirements set forth in Sections 18.1483 - 18.1488 of the *Michigan Compiled Laws* pertaining to its systems of internal accounting and**

**administrative control.** However, we identified a reportable condition related to internal auditor functions (Finding 8). Also, the internal auditor did not report to the DCH director. DCH reorganized subsequent to the audit period so that the internal auditor reported to the DCH director.

The findings related to our assessment of compliance and internal control over financial reporting are contained in Section II of the schedule of findings and questioned costs\* .

3. To assess and report on DCH's compliance with requirements applicable to each major federal program and on its internal control over compliance in accordance with U.S. Office of Management and Budget (OMB) Circular A-133.

**Our assessment of compliance applicable to each major federal program disclosed instances of noncompliance that are required to be reported under OMB Circular A-133.** These related to School Based Outreach Services, home health care, personnel-payroll cost distributions, special adjustor payments, the Medicaid Management Information System (MMIS), and the Maternal and Child Health Services Block Grant to the States (MCH) (Findings 9 through 14). **However, our assessment of internal control over compliance applicable to each major federal program did not disclose any material weaknesses.** We did identify reportable conditions related to home health care, personnel-payroll cost distributions, special adjustor payments, MMIS, and MCH (Findings 10 through 14).

The findings related to our assessment of compliance and internal control over compliance applicable to each major federal program are contained in Section III of the schedule of findings and questioned costs.

#### Audit Scope

Our audit scope was to examine the financial and other records of the Department of Community Health for the period October 1, 1997 through September 30, 1999. Our audit was conducted in accordance with generally accepted auditing standards and the

\* See glossary at end of report for definition.



standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

We considered DCH's internal control over compliance applicable to each major federal program and assessed DCH's compliance with federal laws and regulations in accordance with the Single Audit Act Amendments of 1996 and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, in addition to generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. In addition, we followed up on DCH's summary schedule of prior audit findings. DCH's major federal programs are identified in Section I of the schedule of findings and questioned costs.

#### Agency Responses and Prior Audit Follow-Up

Our audit report includes 12 findings (Findings 1 through 9, 11, 12, and 14) with 14 corresponding recommendations. DCH's corrective action plan indicates that it generally agrees with the findings and recommendations. The plan also indicates that DCH has initiated corrective action for the recommendations. In addition, our report contains 2 findings (Findings 10 and 13) that refer to findings in other reports that have reported questioned costs. DCH agreed with these findings.

DCH's corrective action plan, which is included in this report, was prepared by DCH as required by OMB Circular A-133. Section 18.1462 of the *Michigan Compiled Laws* and Department of Management and Budget Administrative Guide procedure 1280.02 require DCH to develop a formal response to our audit findings and recommendations within 60 days after release of the audit report.

As disclosed in DCH's summary schedule of prior audit findings, DCH fully corrected 2 of the 7 prior Single Audit findings and did not correct or partially corrected 5 of the findings. One prior audit recommendation is repeated in this audit report (see Finding 11).

## **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

### **Section I: Summary of Auditor's Results**

#### **Financial Schedules and Financial Statements**

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified? No

Reportable conditions identified that are not considered to be  
material weaknesses? Yes

Noncompliance material to the financial schedules or  
financial statements? No

#### **Federal Awards**

Internal control over major programs:

Material weaknesses identified? No

Reportable conditions identified that are not considered to be  
material weaknesses? Yes

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in  
accordance with U.S. Office of Management and Budget (OMB)  
Circular A-133, Section 510(a)? Yes

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
16.579	Byrne Formula Grant Program
93.044 and 93.045	Aging Cluster
93.268	Immunization Grants
93.778	Medicaid Cluster
93.959	Block Grants for Prevention and Treatment of Substance Abuse
93.994	Maternal and Child Health Services Block Grant to the States

Dollar threshold used to distinguish between type A and type B programs: \$22,761,185

Auditee qualified as a low-risk auditee\* ? No

## **Section II: Findings Related to the Financial Schedules and Financial Statements**

### **FINDING (399901)**

#### **1. Recording of Revenues**

The Department of Community Health (DCH) needs to improve its internal control to ensure that revenues are properly recorded.

*\* See glossary at end of report for definition.*

DCH's General Fund nonfederal revenues totaled approximately \$851 million and \$767 million for fiscal years 1998-99 and 1997-98, respectively. Our analysis of DCH nonfederal revenues disclosed:

- a. DCH's year-end cut-off procedures did not ensure that revenues were recorded in the proper fiscal year.

DCH did not record \$23 million of accounts receivable for Special Medicaid reimbursements earned as of September 30, 1998. This understated nonfederal revenues (Special Medicaid reimbursements) in fiscal year 1997-98 and overstated Special Medicaid reimbursements in fiscal year 1998-99. DCH explained that this revenue was recorded as instructed by the Office of the Budget, Department of Management and Budget (DMB). However, the DCH Accounting Division is responsible for reviewing DCH budgetary entries to ensure that the accounting entries are properly recorded.

- b. DCH did not properly use agency object codes to ensure that revenues were accurately reported as federal or nonfederal revenues.

DCH established agency object codes to ensure that revenues are properly recorded by the source of revenue. Our audit noted that DCH used incorrect agency object codes in several revenue transactions resulting in the understatement of federal revenues and the overstatement of nonfederal revenues by approximately \$8.5 million in fiscal year 1998-99 and the overstatement of federal revenues and the understatement of nonfederal revenues by approximately \$12.5 million in fiscal year 1997-98.

These errors also affected the reconciliation of federal revenues with the schedule of expenditures of federal awards (SEFA) and resulted in errors on the SEFA as initially prepared by DCH (see Finding 7).

### **RECOMMENDATION**

We recommend that DCH improve its internal control to ensure that revenues are properly recorded.

## **FINDING (399902)**

### **2. Medicaid Accrual**

DCH needs to improve internal control over its monitoring procedures used to evaluate the accuracy of the Medicaid accruals and to assess and re-evaluate the effectiveness of the accrual methodologies.

Section 18.1485 of the *Michigan Compiled Laws* specifies that each department shall establish and maintain internal control techniques that are both effective and efficient. As part of its overall responsibility for the State's accounting system, the DMB Office of Financial Management (OFM) has issued DMB Administrative Guide procedure 1210.27, which requires both agency (e.g., DCH) and OFM accounting staff to be involved in and to apply the concepts of materiality, consistency, matching, objectivity, and conservatism in developing an estimation methodology. The procedure also requires that significant changes to an established estimation methodology be approved by OFM prior to agency implementation. We recognize that DCH has modified its methodologies in prior years, notably the implementation of an annual change in liability for the inpatient hospital Medicaid and the out-of-State hospital component, and has established a more timely reporting process for the invoice processing component to allow for earlier adjustments to the accrual. Also, DCH has implemented other changes to the accrual and obtained OFM approval for those changes during our audit period.

The Medicaid accrual totaled approximately \$469 million and \$503 million and consisted of 14 components and 10 components in fiscal years 1998-99 and 1997-98, respectively. We reviewed the accrual methodologies for six components: inpatient hospital providers, providers in the invoice processing system, long-term care cost settlements, long-term care unbilled "pipeline," health maintenance organizations, and school based services. These six components constituted 81.4% and 94.2% of the accrual in fiscal years 1998-99 and 1997-98, respectively. Our review of these six accrual components disclosed:

- a. During fiscal year 1998-99, DCH discovered that it had erroneously calculated the accruals for inpatient hospital providers over the prior six fiscal years. This included a calculation error in 1993 that resulted in overstatements for the liability for each year dating back to fiscal year 1984-85. As a result, DCH processed adjusting entries that reduced the liability pertaining to fiscal years

1994-95 through 1996-97 by \$38.9 million, to fiscal year 1997-98 by \$7.4 million, and to fiscal year 1998-99 by \$8.9 million. DCH estimates that an additional liability reduction of \$39.8 million will be recorded for fiscal years 1984-85 through 1993-94 in fiscal year 1999-2000.

The complexity of the program and the lengthy amount of time required to conduct the final cost settlement with the hospitals that are part of the calculation methodology contributed to the errors discovered over the past several years. By going undetected, the errors accumulated over the years. DCH's review process was not adequate to detect errors in mathematical calculations or deviations from the established and approved methodology. Other factors contributing to the complexity and difficulty in monitoring the accrual include the carry-forward of the inpatient hospital liability from the prior fiscal year, numerous mathematical calculations, various lump sum adjustments to the accrual, and changes in departmental responsibility for reviewing the accrual. The accruals for inpatient hospital providers were approximately \$99.6 million and \$184.8 million as of September 30, 1999 and September 30, 1998, respectively.

- b. DCH did not compare the annual estimated accruals to actual results for the accrual of long-term care unbilled "pipeline" claims since fiscal year 1997-98. On a one-time basis, DCH compared a portion (1996 cost settlements only) of the fiscal year 1995-96 and fiscal year 1996-97 long-term care cost settlement liabilities to amounts paid as of September 30, 1998. This comparison disclosed that DCH had overstated the fiscal year 1995-96 payable for 1996 cost settlements by \$1.2 million (21%) and overstated the fiscal year 1996-97 payable for 1996 cost settlements by \$1.3 million (10%) as of September 30, 1998. DCH annually updates its comparison of estimated accruals to payments made to inpatient hospitals, but the impact of this comparison is delayed because of the lengthy cost settlement process. More timely comparisons of the estimated figures to the actual figures would provide DCH with insight as to the accuracy of the accrual.

The accruals for the long-term care cost settlements and unbilled "pipeline" were approximately \$139.4 million and \$136.2 million as of September 30, 1999 and September 30, 1998, respectively.

Improving the review process over the current accrual methodologies would help increase the accuracy of DCH's financial schedules; provide more assurance that the accrual reflects the liability of the State; detect errors on a more timely basis; reduce the need for adjusting entries; decrease the amount of effort required to reconcile, validate, and audit those entries during the closing process; and provide needed assurance that the methodologies are fundamentally sound.

## **RECOMMENDATION**

We recommend that DCH improve internal control over its monitoring procedures used to evaluate the accuracy of the Medicaid accruals and to assess and re-evaluate the effectiveness of the accrual methodologies.

## **FINDING (399903)**

### **3. Cash Management**

DCH needs to improve internal control over its cash management procedures. We noted exceptions related to the timeliness of cash draws and incomplete information being reported to the Michigan Department of Treasury. We estimate that the State lost approximately \$349,600 in interest income during our audit period.

The federal Cash Management Improvement Act (CMIA) of 1990 was enacted to achieve greater efficiency, effectiveness, and equity in the transfer of federal funds. The State entered into an agreement with the U.S. Department of Treasury to implement CMIA for selected major federal programs in accordance with Title 31, Part 205 of the *Code of Federal Regulations*. Compliance with CMIA requires an annual review of actual cash draws compared with prescribed drawdowns and a settlement of interest due from or to the U.S. Department of Treasury. Also, Section 18.1395(5) of the *Michigan Compiled Laws* and DMB Administrative Guide procedure 1210.06 require State departments to obtain federal funds as soon as they become available.

During our audit period, DCH had four major federal programs subject to CMIA provisions for drawing federal funds. Our review of DCH's requests for federal

funds and the reporting of cash draws when compared with prescribed CMIA drawdowns disclosed:

- a. DCH requests to draw federal funds were sometimes not timely. DCH did not draw \$5 million of Medicaid funds available on June 25, 1999 until August 5, 1999 and did not draw \$750,500 of Maternal and Child Health Services Block Grant to the States funds available on February 23, 1998 until September 30, 1998. As a result, we estimate that the State lost approximately \$56,000 in interest income.
- b. DCH requests to draw federal funds sometimes did not follow the CMIA agreements, resulting in underdraws. The requests for \$105 million for Medicaid for the period July 1, 1998 through September 30, 1998 was calculated over 7 State pay periods rather than the 6 pay periods provided by the CMIA agreement. Also, an adjustment of estimated program expenditures of \$3.6 million for the period March 15, 1999 through September 30, 1999 for the Block Grants for Prevention and Treatment of Substance Abuse was not made in accordance with the CMIA agreement. As a result, we estimate that the State lost approximately \$165,000 in interest income.
- c. DCH did not document the calculation used to determine the monthly draw amounts for the Block Grants for Prevention and Treatment of Substance Abuse. As a result, DCH could not document that the monthly draw amounts were correct.
- d. DCH did not report all delays in the availability of federal funds to the Michigan Department of Treasury for CMIA reporting, causing an estimated loss of interest income for the State of approximately \$128,600. The Michigan Department of Treasury uses the departmental reports during the settlement process to determine the amount of interest due from or to the U.S. Department of Treasury. Our review of selected draws disclosed that DCH did not report the delay in the draw of federal funds of approximately \$4.1 million for 119 days during fiscal year 1997-98 and \$3.7 million for 54 days during fiscal year 1998-99 for the Block Grants for Prevention and Treatment of Substance Abuse.



- e. DCH did not report the delays noted in parts a. and b. to the Michigan Department of Treasury as underdraws under the CMIA agreement. If the underdraws are reported, DCH may be able to collect from the U.S. Department of Treasury interest similar in amount to that indicated as lost in parts a. and b.

## **RECOMMENDATIONS**

We recommend that DCH improve internal control over its cash management procedures.

We also recommend that DCH report all underdraws related to CMIA agreements to the Michigan Department of Treasury.

## **FINDING (399904)**

### **4. Use of State Funds**

DCH did not spend federal funds before State funds as required by State statute. As a result, DCH carried forward available federal funds and did not lapse approximately \$3.0 million and \$117,000 to the State's General Fund for fiscal years 1998-99 and 1997-98, respectively.

Section 18.1395(5) of the *Michigan Compiled Laws* (a section of the Management and Budget Act) stipulates: "In an appropriation financed by multiple sources, any state general fund-general purpose appropriations shall be used only after the restricted funds available have been expended."

During fiscal year 1997-98, DCH used approximately \$23 million of State General Fund/general purpose funds for medical care and treatment expenditures as part of the Children's Special Health Care Services Program. Rather than using available federal Maternal and Child Health Services Block Grant to the States (MCH) appropriations to fund as much as possible of these expenditures, DCH used State General Fund/general purpose appropriations. DCH carried approximately \$3.0 million of available federal MCH appropriations forward into the subsequent fiscal year.

In addition, DCH used State General Fund/general purpose appropriations to provide funds for approximately \$117,000 for the Byrne Formula Grant Program during fiscal year 1997-98. Rather than using available federal grant appropriations to fund these expenditures, DCH carried the available federal Byrne Formula Grant Program appropriations forward into the subsequent fiscal year instead of lapsing State funds in fiscal year 1997-98.

## **RECOMMENDATION**

We recommend that DCH spend federal funds before State funds as required by Section 18.1395(5) of the *Michigan Compiled Laws*.

## **FINDING (399905)**

### **5. Personnel and Payroll Internal Control**

DCH needs to improve its internal control over the personnel and payroll process. Internal control weaknesses were noted in the data entry and reconciliation functions and the processing of severance payments:

- a. DCH had not established effective controls over the data entry and reconciliation functions:
  - (1) Twenty-six DCH personnel-payroll employees entered 122 transactions for themselves. Also, 3 of these employees were assigned the duties of a control person, who is responsible for verifying the propriety of transactions as listed on the daily and biweekly transaction reports. In addition, 6 of 23 DCH control employees had passwords that would enable them to enter transactions for themselves.
  - (2) The department security administrator did not deactivate Data Collection and Distribution System (DCDS) user identifications and passwords for four DCH employees who no longer had personnel-payroll responsibilities. Human Resources System Procedures Manual sections 2.1 and 3.5 provide for the department security administrator to delete user identifications and passwords when an employee leaves a personnel-payroll position.

- (3) Eleven of 45 biweekly transaction reports were not reconciled with source documents. To help ensure that transactions are accurately processed, the biweekly transaction reports should be reconciled with source documents by a control person who does not have the capability to process payroll transactions.
- b. DCH had not established adequate internal control to ensure that personnel-payroll employees updated employee histories for severance payments and correctly processed severance payments. Our review of severance payments, which totaled approximately \$2 million during our audit period, disclosed:
  - (1) Eleven of 22 selected employees receiving a severance payment did not have their employee histories updated to indicate that a payment was made. As a result, other State agencies hiring these employees would not have knowledge to require them to reimburse the State for the amount of the severance payment received as required by Department of Civil Service Administrative Procedure No. 13.
  - (2) For 2 of 6 employees with severance payments, the payroll system generated paychecks even though the employees did not work. DCH processed a negative gross pay adjustment to recover the paycheck amounts but not to recover \$406 for annual and sick leave accrued during that pay period.

The internal control weaknesses related to personnel and payroll operations increased the risk that unauthorized transactions could occur and remain undetected. Although we noted some weaknesses, we did not note any instances of impropriety.

### **RECOMMENDATION**

We recommend that DCH improve its internal control over the personnel and payroll process.

## **FINDING (399906)**

### **6. Encumbrances**

DCH needs to improve its internal control to ensure that encumbrances are established in accordance with generally accepted accounting principles (GAAP) and the DMB Administrative Guide.

Section 1700.129 of the *Codification of Governmental Accounting and Financial Reporting Standards*, published by the Governmental Accounting Standards Board (GASB), defines encumbrances as commitments related to unperformed contracts for goods or services. DMB Administrative Guide procedure 1210.27 lists specific criteria that contracts must satisfy in order to be a valid State encumbrance.

Our review of 13 DCH encumbrance documents disclosed instances in which DCH encumbrances did not meet GAAP and/or DMB Administrative Guide requirements:

- a. In 3 documents, DCH recorded encumbrances for contracts in which the goods and services were provided prior to September 30 for \$1,085,242 and \$1,547,246 in fiscal years 1998-99 and 1997-98, respectively. GASB Codification Section 1700.129 states that encumbrances should be established for only unperformed contracts. Accounts payable should be recorded because the goods and services were provided prior to September 30.
- b. In 1 document, DCH established an encumbrance of \$1,500,000 in fiscal year 1997-98 for a contract that did not begin until January 1, 1999. DMB Administrative Guide procedure 1210.27 states: "Contracts for services beginning after year-end do not qualify and are considered new year charges." The original contract start date was July 1, 1998; however, it was changed to January 1, 1999. Also, the contract revision was not signed by all parties by September 16 as required by DMB Administrative Guide procedure 1210.27.

## **RECOMMENDATION**

We recommend that DCH improve its internal control to ensure that encumbrances are established in accordance with GAAP and the DMB Administrative Guide.

## **FINDING (399907)**

### **7. Schedule of Expenditures of Federal Awards (SEFA)**

DCH needs to improve its internal control to ensure the accurate preparation of the SEFA.

The DCH Grants Management Section is responsible for preparing the SEFA and reconciling it to DCH's accounting records. Our review of DCH's SEFA and associated reconciliation work sheets disclosed:

- a. DCH did not accurately reconcile SEFA expenditures with the accounting records. Our review disclosed that the SEFA expenditures were understated by approximately \$13.1 million in fiscal year 1998-99 and overstated by approximately \$15.3 million in fiscal year 1997-98. DCH revised the SEFA presented in this report to correct the errors identified in our audit.
- b. DCH did not classify amounts expended on the SEFA according to whether they were directly expended by DCH or by a subrecipient\* . We noted classification errors of approximately \$2.3 million and \$3.3 million in fiscal years 1998-99 and 1997-98, respectively. DCH revised the SEFA presented in this report to correct the errors identified in our audit.
- c. DCH did not accurately reconcile federal expenditures, as reported on the SEFA, with federal revenues. DCH's reconciliations disclosed that federal expenditures exceeded federal revenues by approximately \$4.0 million in fiscal year 1998-99 and federal revenues exceeded federal expenditures by approximately \$1.9 million in fiscal year 1997-98.

OMB Circular A-133 requires the federal award grantee (e.g., DCH) to prepare a SEFA for the period covered by the grantee's financial schedules and statements. Also, the State's Year-End Closing Guide issued by the DMB Office of Financial Management requires that the SEFA be reconcilable with the information contained in DCH's financial schedules.

\* See glossary at end of report for definition.

## **RECOMMENDATION**

We recommend that DCH improve its internal control to ensure the accurate preparation of the SEFA.

## **FINDING (399908)**

### **8. Internal Auditor Functions**

DCH could improve internal control over its financial operations by requiring the internal auditor to give a higher priority to the internal auditor functions specified in Section 18.1486(4) of the *Michigan Compiled Laws*.

Section 18.1486(4) of the *Michigan Compiled Laws* establishes specific functions for the internal auditor to perform. These functions include conducting audits of DCH's financial activities and operations.

Our review disclosed that DCH's internal auditor issued one financial audit report during fiscal year 1998-99. We noted that DCH had assigned the internal auditor and his staff of approximately 32 auditors that are located throughout the State a number of other duties in addition to performing internal audits of DCH's financial operations. These other duties include conducting audits of many external entities, such as nursing homes, local health departments, and local community mental health services programs, and performing follow-up reviews of previous audits.

DCH should use a risk-based analysis to prioritize the allocation of limited audit resources. Increased auditing of financial activities and operations is important because DCH's annual revenues are approximately \$4.6 billion and its annual expenditures are approximately \$8.0 billion, including approximately \$350 million of payroll expenditures.

## **RECOMMENDATION**

We recommend that DCH improve internal control over its financial operations by requiring the internal auditor to give a higher priority to the internal auditor functions specified in Section 18.1486(4) of the *Michigan Compiled Laws*.

The status of the findings reported in the prior Single Audit is disclosed in the summary schedule of prior audit findings.

### Section III: Findings and Questioned Costs Related to Federal Awards

#### **FINDING (399909)**

##### 9. School Based Outreach Services

U.S. Department of Health and Human Services	CFDA: 93.778 Medical Assistance Program
Award Number: 5-9805MI5028 5-9805MI5028	Award Period: 10/1/1997 - 9/30/1998 10/1/1998 - 9/30/1999
	Questioned Costs: \$272,378,486

The U.S. Health Care Financing Administration (HCFA) has concluded that DCH was not in compliance with federal regulations for the School Based Outreach Services Program.

DCH administered the School Based Outreach Services Program, which provided certain health services to school-aged children. DCH was reimbursed for the direct services provided and also for related administrative costs.

On June 16, 2000, HCFA cited DCH for noncompliance with federal regulations for the School Based Outreach Services Program in a federal financial management review. On August 31, 2000, HCFA disallowed \$89.3 million of approximately \$272.4 million of School Based Outreach Services Program costs for fiscal years 1998-99 and 1997-98. DCH informed us that it expected to settle this dispute for significantly less than the amount questioned.

#### **RECOMMENDATION**

We recommend that DCH comply with federal regulations for the School Based Outreach Services Program.

## **FINDING (399910)**

### **10. Home Health Care**

U.S. Department of Health and Human Services	CFDA: 93.778 Medical Assistance Program
Award Number: 5-9805MI5028 5-9805MI5028	Award Period: 10/1/1997 - 9/30/1998 10/1/1998 - 9/30/1999
	Questioned Costs: \$52,742

The preceding questioned costs are associated with Findings 1 and 8 of our concurrent performance audit of Home Health Care, issued in December 1999.

As noted in Finding 1 of our concurrent performance audit, DCH's monitoring program was not adequate to reasonably ensure that providers of home health care services provided quality services to clients and that claims submitted by providers complied with program requirements. Our audit disclosed questioned costs totaling \$9,929 for fiscal year 1997-98.

As noted in Finding 8, the Family Independence Agency performed case management services for DCH for the Home Help Program. DCH did not ensure that the Family Independence Agency adhered to established procedures for processing payments and managing Home Help Program cases. Our audit disclosed questioned costs of \$42,813 for fiscal year 1997-98.

The concurrent performance audit report (39-700-98) is available upon request or from our web site at <http://www.state.mi.us./audgen/>.



**FINDING (399911)****11. Personnel-Payroll Cost Distributions**

U.S. Department of Health and Human Services	CFDA: 93.217 Family Planning - Services
Award Number: 05-H000173-26 05-H000173-27	Award Period: 7/1/1997 - 3/31/1998 7/1/1998 - 3/31/1999
	Questioned Costs: \$2,330

U.S. Department of Health and Human Services	Aging Cluster: CFDA: 93.044 Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers CFDA: 93.045 Special Programs for the Aging - Title III, Part C - Nutrition Services
Award Number: CFDA: 93.044 0197AAMI1320 0198AAMI1320 0299AAMI1320 CFDA: 93.045 0197AAMI1712 0197AAMI1713 0198AAMI1712 0299AAMI1712 0198AAMI1713 0299AAMI1713	Award Period:  10/1/1996 - 9/30/1997 10/1/1997 - 9/30/1998 10/1/1998 - 9/30/1999  10/1/1996 - 9/30/1997 10/1/1996 - 9/30/1997 10/1/1997 - 9/30/1998 10/1/1998 - 9/30/1999 10/1/1997 - 9/30/1998 10/1/1998 - 9/30/1999
	Questioned Costs: \$343

U.S. Department of Health and Human Services	CFDA: 93.919 Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs
Award Number: U57/CCU506738-05 U57/CCU506738-06 U57/CCU506738-07	Award Period: 7/16/1995 - 8/14/1997 8/15/1997 - 8/14/1998 8/15/1998 - 8/14/1999
	Questioned Costs: \$7,044

DCH's internal control did not ensure that payroll costs met federal requirements related to documentation of time distributions for payroll charges to federal programs.

OMB Circular A-87 provides for minimum time distribution and documentation standards for payroll-related charges to federal programs. The Circular requires that salaries and wages for employees who work solely on a single federal award or cost objective be supported by periodic certifications, prepared at least semiannually, that the employees worked solely on that program. The Circular also requires that salaries or wages for employees who work on multiple activities or cost objectives be supported by personnel activity reports or equivalent documentation.

Our testing of DCH's payroll charges for federal programs disclosed:

- a. The periodic certification for one employee who worked solely on the Family Planning - Services Program (*CFDA* Number 93.217) covered a 10-month period, which exceeded the maximum 6-month certification period provided by Circular A-87. As a result, we reported questioned costs of \$2,330 relating to payroll charges to this federal program.
- b. The DCH Office of Services to the Aging (OSA) developed predetermined payroll distributions in lieu of recording the actual time spent on each federal program. OSA staff informed us that employees informally estimated, on an annual basis, the percentage of time worked on multiple federal programs. However, OSA could not provide us with documentation to support how the employees determined these annual estimates. We reviewed the biweekly time sheets for six employees charged to the Aging Cluster (*CFDA* Numbers 93.044 and 93.045) and noted that five time sheets were completed using only the predetermined percentages and not actual time. Attachment B, 11.h.5(e) of Circular A-87 states that distribution percentages determined before the services are performed do not qualify as support for charges to a federal award. However, they may be used for interim accounting purposes, provided that the distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances. OSA did not make quarterly revisions to the predetermined estimates based on a comparison with

personnel activity reports. As a result, we reported questioned costs of \$343 relating to payroll charges to this federal program. A similar finding was included in our prior audit of these federal programs when OSA was part of DMB.

- c. DCH employees working on multiple activities did not prepare and maintain personnel activity reports or equivalent documentation that reflect the employees' actual activity for the Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs (CFDA Number 93.919) in fiscal year 1997-98 as required by Circular A-87. As a result, we reported questioned costs of \$7,044 relating to the these payroll charges. A similar finding was included in our prior audit.

## **RECOMMENDATIONS**

We recommend that DCH establish internal control to ensure that payroll costs meet federal requirements related to documentation of time distributions for payroll charges to the Family Planning - Services Program and the Aging Cluster.

WE AGAIN RECOMMEND THAT DCH ESTABLISH INTERNAL CONTROL TO ENSURE THAT PAYROLL COSTS MEET FEDERAL REQUIREMENTS RELATED TO DOCUMENTATION OF TIME DISTRIBUTIONS FOR PAYROLL CHARGES TO THE COOPERATIVE AGREEMENTS FOR STATE-BASED COMPREHENSIVE BREAST AND CERVICAL CANCER EARLY DETECTION PROGRAMS.

## **FINDING (399912)**

### **12. Special Adjustor Payments**

U.S. Department of Health and Human Services	CFDA: 93.778 Medical Assistance Program
Award Number: 5-9805MI5028 5-9805MI5028	Award Period: 10/1/1997 - 9/30/1998 10/1/1998 - 9/30/1999
	Questioned Costs: \$481,693

DCH did not always use the methodology approved in the Medicaid State Plan to calculate special adjustor payments.

DCH generally calculated special adjustor payments in accordance with the Medicaid State Plan. However, during fiscal year 1997-98, DCH did not apply the methodology approved in the State Plan to calculate special adjustor payments to a State psychiatric hospital resulting in an overpayment of Medicaid funds to the hospital of \$481,693.

Total special adjustor payments billed to Medicaid were approximately \$498.2 million and \$493.5 million for fiscal years 1998-99 and 1997-98, respectively.

### **RECOMMENDATION**

We recommend that DCH use the methodology approved in the Medicaid State Plan to calculate special adjustor payments.

### **FINDING (399913)**

#### **13. Medicaid Management Information System**

U.S. Department of Health and Human Services	CFDA: 93.778 Medical Assistance Program
Award Number: 5-9805MI5028 5-9805MI5028	Award Period: 10/1/1997 - 9/30/1998 10/1/1998 - 9/30/1999
	Questioned Costs: \$10,768

The preceding questioned costs are associated with Findings 5 and 6 of our concurrent performance and financial related audit of the Medicaid Management Information System (MMIS), issued in October 1999.

As noted in Finding 5 of our concurrent performance and financial related audit, DCH had not established control procedures to identify and inactivate incarcerated Medicaid recipients. Our audit disclosed that 11 (10.8%) of 102 sampled Medicaid recipients with a prisoner identification number received Medicaid benefits while they

were incarcerated. Federal regulations prohibit prisoners of public institutions from receiving Medicaid services.

As noted in Finding 6 of our concurrent performance and financial related audit, DCH did not establish and maintain a program for conducting periodic risk assessments of MMIS. The federal government requires DCH, at a minimum, to conduct a risk assessment of MMIS on a biennial basis or whenever significant changes occur.

The concurrent performance and financial related audit report (39-596-98) is available upon request or from our web site at <http://www.state.mi.us/audgen/>.

#### **FINDING (399914)**

##### **14. Maternal and Child Health Services Block Grant to the States (MCH)**

U.S. Department of Health and Human Services	CFDA: 93.994 Maternal and Child Health Services Block Grant to the States
Award Number: 97-B1-MI-MCHS 98-B1-MI-MCHS 99-B1-MI-MCHS	Award Period: 10/1/1996 - 9/30/1998 10/1/1997 - 9/30/1999 10/1/1998 - 9/30/2000
	Questioned Costs: \$101

DCH's control procedures did not ensure that paid claims for the Children's Special Health Care Services (CSHCS) Program related to a child's qualifying condition and were issued to only authorized providers.

We concluded that DCH was in substantial compliance with federal regulations pertaining to MCH. However, our audit disclosed that unallowable costs were charged to MCH, which are required to be reported in accordance with OMB Circular A-133.

Our review of 20 CSHCS paid claims disclosed that DCH did not ensure that MCH funds used to pay for CSHCS were only paid for services relating to the child's qualifying condition and were only paid to authorized providers. Two (10%) of 20 claims reviewed were for services that did not relate to the child's qualifying

condition. One additional claim was from a provider who was not authorized to provide services to that child.

The MCH application requires that reimbursement be for medical services "related to each participating individual's qualifying condition(s)." DCH explained that its program controls limited claim payments to those from authorized providers. However, these controls were not sufficient to ensure that all claims were related to a qualifying condition and to an authorized provider. Also, DCH did not have a process, such as a postpayment review, to detect claim payments that were not related to a qualifying condition or to an authorized provider.

### **RECOMMENDATION**

We recommend that DCH improve its control procedures to ensure that paid claims for the CSHCS Program relate to a child's qualifying condition and are issued to only authorized providers.

**The status of the findings reported in the prior Single Audit is disclosed in the summary schedule of prior audit findings.**

Independent Auditor's Report on  
the Financial Schedules

August 31, 2000

Mr. James K. Haveman, Jr. , Director  
Department of Community Health  
Lewis Cass Building  
Lansing, Michigan

Dear Mr. Haveman:

We have audited the accompanying schedule of General Fund revenues and operating transfers and the schedule of sources and disposition of General Fund authorizations of the Department of Community Health for the fiscal years ended September 30, 1999 and September 30, 1998. These financial schedules are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial schedules based on our audit. The financial transactions of the Department are accounted for principally in the General Fund of the State of Michigan.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1b, the accompanying financial schedules include only the revenues and operating transfers and the sources and disposition of authorizations for the Department of Community Health's General Fund accounts, presented on the modified accrual basis of accounting. Accordingly, these financial schedules are not intended to constitute a complete financial presentation of either the Department or the State's General Fund in accordance with generally accepted accounting principles.

In our opinion, the financial schedules referred to in the first paragraph present fairly, in all material respects, the revenues and operating transfers and the sources and disposition of authorizations of the Department of Community Health for the fiscal years ended September 30, 1999 and September 30, 1998 on the basis of accounting described in Note 1b.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 31, 2000 on our tests of the Department's compliance with certain provision of laws, regulations, contracts, and grants and on our consideration of its internal control over financial reporting.

The accompanying schedule of expenditures of federal awards, required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the other supplemental financial schedule, the schedule of certain General Fund assets and liabilities, are presented for purposes of additional analysis and are not a required part of the Department's financial schedules referred to in the first paragraph. Such information has been subjected to the auditing procedures applied in the audit of the financial schedules and, in our opinion, is fairly stated, in all material respects, in relation to the financial schedules taken as a whole.

Sincerely,

Thomas H. McTavish, C.P.A.  
Auditor General



Independent Auditor's Report on  
the Financial Statements

August 31, 2000

Mr. James K. Haveman, Jr., Director  
Department of Community Health  
Lewis Cass Building  
Lansing, Michigan

Dear Mr. Haveman:

We have audited the accompanying balance sheet of the Hospital Patients' Trust Fund, Department of Community Health, as of September 30, 1999 and September 30, 1998 and the related statement of revenues, expenditures, and changes in fund balance for the fiscal years then ended. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1b, the accompanying financial statements present only the Hospital Patients' Trust Fund and are not intended to present fairly the financial position and results of operations of the State of Michigan or its expendable trust funds.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Hospital Patients' Trust Fund as of

September 30, 1999 and September 30, 1998 and the results of its operations for the fiscal years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 31, 2000 on our tests of the Department's compliance with certain provisions of laws, regulations, contracts, and grants and on our consideration of its internal control over financial reporting.

Sincerely,

Thomas H. McTavish, C.P.A.  
Auditor General

Independent Auditor's Report on Compliance  
and on Internal Control Over Financial Reporting

August 31, 2000

Mr. James K. Haveman, Jr., Director  
Department of Community Health  
Lewis Cass Building  
Lansing, Michigan

Dear Mr. Haveman:

We have audited the General Fund financial schedules of the Department of Community Health for the fiscal years ended September 30, 1999 and September 30, 1998 and have issued our report thereon dated August 31, 2000. We have also audited the Hospital Patients' Trust Fund financial statements of the Department of Community Health as of and for the fiscal years ended September 30, 1999 and September 30, 1998 and have issued our report thereon dated August 31, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Department's financial schedules and statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial schedule or statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial schedules and statements and not to provide

assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial schedules and statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as Findings 1 through 8.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial schedules or statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described in the previous paragraph is a material weakness.

This report is intended solely for the information and use of the State's management, the Legislature, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

Thomas H. McTavish, C.P.A.  
Auditor General

Independent Auditor's Report on Compliance With  
Requirements Applicable to Each Major Program  
and on Internal Control Over Compliance in  
Accordance With OMB Circular A-133

August 31, 2000

Mr. James K. Haveman, Jr., Director  
Department of Community Health  
Lewis Cass Building  
Lansing, Michigan

Dear Mr. Haveman:

Compliance

We have audited the compliance of the Department of Community Health with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each major federal program for the fiscal years ended September 30, 1999 and September 30, 1998. The Department's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each major federal program is the responsibility of the Department's management. Our responsibility is to express an opinion on the Department's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to in the previous paragraph that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Department's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Our audit does not provide a legal determination of the Department's compliance with those requirements.

In our opinion, the Department of Community Health complied, in all material respects, with the requirements referred to in the second previous paragraph that are applicable to each major federal program for the fiscal years ended September 30, 1999 and September 30, 1998. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Findings 9 through 14.

#### Internal Control Over Compliance

The management of the Department is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Department's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Department's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as Findings 10 through 14.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described in the previous paragraph is a material weakness.

This report is intended solely for the information and use of the State's management, the Legislature, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

Thomas H. McTavish, C.P.A.  
Auditor General

DEPARTMENT OF COMMUNITY HEALTH  
Schedule of General Fund Revenues and Operating Transfers  
Fiscal Years Ended September 30

	<u>1999</u>	<u>1998</u>
REVENUES		
Taxes	\$ 54,236,809	\$ 55,305,860
Federal agencies	3,800,262,764	3,586,016,252
From local agencies	23,229,076	23,127,041
From services	24,988,422	18,322,589
From licenses and permits	2,677,603	2,391,373
Special Medicaid reimbursements	690,798,646	585,179,390
Miscellaneous (Note 5):		
Women, Infants, and Children (WIC) vendor rebates		42,344,437
Other sources	<u>55,231,337</u>	<u>40,337,133</u>
Total Revenues	<u>\$ 4,651,424,658</u>	<u>\$ 4,353,024,075</u>
OPERATING TRANSFERS		
From Compulsive Gaming Prevention Fund	\$ 1,649,667	\$ 950,000
From Senior Care Respite Fund	2,250,101	3,030,740
From Gifts, Bequests, and Deposits Investment Fund	<u>1,303,931</u>	<u>481,797</u>
Total Operating Transfers	<u>\$ 5,203,700</u>	<u>\$ 4,462,537</u>
Total Revenues and Operating Transfers	<u><u>\$ 4,656,628,358</u></u>	<u><u>\$ 4,357,486,612</u></u>

The accompanying notes are an integral part of the financial schedules.



**DEPARTMENT OF COMMUNITY HEALTH**  
**Schedule of Sources and Disposition of General Fund Authorizations**  
**Fiscal Years ended September 30**

	<u>1999</u>	<u>1998</u>
<b>SOURCES OF AUTHORIZATIONS (Note 2)</b>		
General purpose appropriations	\$ 2,606,893,700	\$ 2,474,525,128
Budgetary transfers in (out)		489,600
Balances carried forward	56,758,293	48,299,327
Restricted financing sources	4,978,080,438	4,816,505,108
Less: Intrafund expenditure reimbursements	<u>(423,354,783)</u>	<u>(460,378,762)</u>
Total	<u>\$ 7,218,377,648</u>	<u>\$ 6,879,440,401</u>
 <b>DISPOSITION OF AUTHORIZATIONS (Note 2)</b>		
Gross expenditures and operating transfers out	\$ 7,534,467,099	\$ 7,252,534,769
Less: Intrafund expenditure reimbursements	<u>(423,354,783)</u>	<u>(460,378,762)</u>
Net expenditures and operating transfers out	<u>\$ 7,111,112,316</u>	<u>\$ 6,792,156,007</u>
Balances carried forward:		
Multi-year projects	\$ 462,381	\$ 5,428
Encumbrances	14,143,887	15,845,908
Restricted revenue - authorized	2,565,623	4,392,979
Restricted revenue - not authorized	<u>37,920,644</u>	<u>58,835,521</u>
 Total balances carried forward	<u>\$ 55,092,534</u>	<u>\$ 79,079,836</u>
 Balances lapsed	<u>\$ 52,882,067</u>	<u>\$ 41,795,065</u>
 Overexpended (Note 3)	<u>\$ (709,270)</u>	<u>\$ (33,590,507)</u>
 Total	<u>\$ 7,218,377,648</u>	<u>\$ 6,879,440,401</u>

The accompanying notes are an integral part of the financial schedules.

HOSPITAL PATIENTS' TRUST FUND

Department of Community Health

Balance Sheet

As of September 30

	<u>1999</u>	<u>1998</u>
ASSETS		
Cash	\$ 25,300	\$ 7,400
Equity in Common Cash	592,314	577,943
Other current assets	<u>40</u>	<u>50</u>
Total Assets	<u>\$ 617,654</u>	<u>\$ 585,393</u>
LIABILITIES AND FUND BALANCE		
Liabilities:		
Warrants outstanding	\$ 32,977	\$ 64,307
Accounts payable and other liabilities	<u>19,111</u>	<u>(72)</u>
Total Liabilities	\$ 52,088	\$ 64,234
Fund Balance:		
Unreserved (Note 7)	<u>565,566</u>	<u>521,159</u>
Total Liabilities and Fund Balance	<u>\$ 617,654</u>	<u>\$ 585,393</u>

The accompanying notes are an integral part of the financial statements.

HOSPITAL PATIENTS' TRUST FUND  
Department of Community Health  
Statement of Revenues, Expenditures, and Changes in Fund Balance  
Fiscal Years Ended September 30

	<u>1999</u>	<u>1998</u>
REVENUES		
Patient trust deposits	\$ 3,354,853	\$ 3,120,880
Interest earnings on Common Cash	<u>30,939</u>	<u>          </u>
Total Revenues	<u>\$ 3,385,792</u>	<u>\$ 3,120,880</u>
EXPENDITURES		
Patient trust withdrawals	<u>\$ 3,341,385</u>	<u>\$ 3,051,805</u>
Total Expenditures	<u>\$ 3,341,385</u>	<u>\$ 3,051,805</u>
Excess of Revenues Over (Under) Expenditures	\$ 44,407	\$ 69,075
Fund Balance - Beginning of fiscal year (Note 7) - restated	<u>521,159</u>	<u>452,084</u>
Fund Balance - End of fiscal year	<u><u>\$ 565,566</u></u>	<u><u>\$ 521,159</u></u>

The accompanying notes are an integral part of the financial statements.

## Notes to the Financial Schedules and Financial Statements

### Note 1 Significant Accounting Policies

#### a. Reporting Entity

The accompanying financial schedules report the results of the financial transactions of the Department of Community Health (DCH) for the fiscal years ended September 30, 1999 and September 30, 1998. The financial transactions of DCH are accounted for principally in the State's General Fund and are reported on in the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*. The financial schedules do not include the financial activities of DCH's Hospital Patients' Trust Fund (HPTF).

The accompanying financial statements report the financial position and results of operations of HPTF as of and for the fiscal years ended September 30, 1999 and September 30, 1998. HPTF is a part of the State of Michigan's reporting entity and is reported within the Miscellaneous Trust Accounts Fund, an expendable trust fund, in the *SOMCAFR*.

The notes accompanying these financial schedules and financial statements relate directly to DCH and HPTF. The *SOMCAFR* provides more extensive general disclosures regarding the State's Summary of Significant Accounting Policies, Budgeting and Budgetary Control, Treasurer's Common Cash, Pension Benefits and Other Postemployment Benefits, Compensated Absences, Leases, Contingencies and Commitments, and Subsequent Events.

#### b. Basis of Accounting and Presentation

The financial schedules and financial statements contained in this report are prepared on the modified accrual basis of accounting, as provided by generally accepted accounting principles for governmental and expendable trust funds. The modified accrual basis of accounting, which emphasizes the measurement of current financial resource flows, is explained in more detail in the *SOMCAFR*.

The accompanying financial schedules include only the revenues and operating transfers and the sources and disposition of authorizations for DCH's General Fund accounts. Accordingly, these financial schedules are not intended to constitute a complete financial presentation of either DCH or the State's General Fund in accordance with generally accepted accounting principles.

The accompanying financial statements present only HPTF. Accordingly, they are not intended to present fairly the financial position and results of operations of the State of Michigan or its expendable trust funds.

Note 2 Schedule of Sources and Disposition of General Fund Authorizations

The various elements of the schedule of sources and disposition of General Fund authorizations are defined as follows:

- a. General purpose appropriations: Original appropriations and any supplemental appropriations that are financed by General Fund/general purpose revenue.
- b. Budgetary transfers in (out): Legislatively approved transfers of spending authorizations between accounts of DCH or between departments. These also include administrative transfers, such as entries to complete the financial closing of the State's fiscal year, that are approved by the Office of Financial Management (OFM), Department of Management and Budget.
- c. Balances carried forward: Authorizations for multi-year projects, encumbrances, restricted revenue - authorized, and restricted revenue - not authorized that were not spent as of the end of the prior fiscal year. These authorizations are available for expenditure in the current fiscal year for the purpose of the carry-forward without additional legislative authorization, except for the restricted revenue - not authorized.
- d. Restricted financing sources: Collections of restricted revenue, restricted operating transfers, and restricted intrafund expenditure reimbursements to finance department programs as detailed in the appropriations act.

These financing sources are authorized for expenditure up to the amount appropriated. Depending upon program statute, any amounts received in excess of the appropriation are, at year-end, either converted to general purpose financing sources and made available for general appropriation in the next fiscal year or carried forward to the next fiscal year as either restricted revenue - authorized or restricted revenue - not authorized.

- e. Intrafund expenditure reimbursements: Funding from other General Fund departments to finance a program or a portion of a program that is the responsibility of the receiving department. An example of a significant program reimbursement is the disproportionate share payments received from Medicaid.
- f. Multi-year projects: Unexpended authorizations for work projects and capital outlay projects that are carried forward to subsequent fiscal years for the completion of the projects.
- g. Encumbrances: Authorizations carried forward to finance payments for goods or services ordered in the old fiscal year but not received by fiscal year-end. These authorizations are generally limited to obligations funded by general purpose appropriations.
- h. Restricted revenue - authorized: Revenue that, by statute or the State Constitution, is restricted for use to a particular department program or activity. Generally, this revenue may be expended upon receipt without additional legislative authorization.
- i. Restricted revenue - not authorized: Revenue that, by statute, is restricted for use to a particular department program or activity. However, the expenditure of the restricted revenue is subject to annual legislative appropriation. For example, DCH earned federal Medicaid revenues in excess of the amounts appropriated.
- j. Balances lapsed: DCH authorizations that were unexpended and unobligated at the end of the fiscal year. These amounts are available for legislative appropriation in the subsequent fiscal year.

- k. Overexpended: The total of DCH's overexpenditure of line-item authorizations. DCH is required to seek a supplemental appropriation to authorize the expenditure.

Note 3 Overexpended Authorizations

DCH overexpended its legislative authorizations for the fiscal years ended September 30, 1999 and September 30, 1998 by \$709,270 and \$33,590,507, respectively, which represents noncompliance with State budget laws. These overexpenditures were the result of Medicaid expenditures being over the appropriated amount. However, there was sufficient revenue to cover these expenditures. DCH has not requested a supplemental appropriation to cover the overexpenditure.

Note 4 Restatement

The DCH Medical Services Administration (MSA) has overstated the inpatient hospital liability for Medicaid since the fiscal year ended September 30, 1993. MSA's approved methodology for calculating the liability required MSA to obtain the State's gross liability from the final hospital cost reports and to deduct the liability previously recorded for that cost report year. However, in calculating the liability each year, MSA mistakenly recorded the gross liability from the cost reports instead of the State's net liability. The gross liability includes the State's net liability plus the patients' liability and the insurance companies' liability.

Because the accrual methodology for this component of the Medicaid liability each year started with the prior year's ending balance and was retroactive to 1985, the errors accumulated over a 14-year period (fiscal years 1984-85 through 1997-98).

When MSA became aware of the error during fiscal year 1998-99, MSA reduced the liability pertaining to fiscal years 1994-95 through 1996-97 by \$38.9 million, to fiscal year 1997-98 by \$7.4 million, and to fiscal year 1998-99 by \$8.9 million. MSA estimates that an additional liability reduction of \$39.8 million will be recorded for fiscal years 1984-85 through 1993-94 in fiscal year 1999-2000.

Note 5 Accounting Change

DCH changed the accounting treatment of certain rebates received by DCH from revenue to expenditure credit effective with the fiscal year ended September 30, 1999. The change was made to more accurately reflect the nature of these transactions. The effect for fiscal year 1998-99 was to decrease revenues and expenditures by \$47.7 million. Approval to change to a more preferred accounting method was requested and obtained from OFM.

Note 6 Contingencies

Projected Mispayments: The Office of Quality Assurance (OQA), Family Independence Agency, conducts ongoing quality assurance reviews of cases within the Medical Assistance Program (CFDA Number 93.778). Based on its review, OQA projected mispayments, excluding underpayments, of \$45.3 million (federal portion of \$23.9 million) for the fiscal year ended September 30, 1999. The amount reported is a final OQA projection, whereas *SOMCAFR* presented preliminary projections for the fiscal year.

The federal grantor agency, the U.S. Health Care Financing Administration (HCFA), also monitors these mispayments. If DCH exceeds the tolerable federal mispayment rates, financial sanctions could be imposed against DCH. Currently, no material sanctions are pending.

Note 7 Restatement

HPTF's statement of revenues, expenditures, and changes in fund balance was adjusted for the fiscal year ended September 30, 1998 in order to show the proper accounting treatment for the correction of a prior period error. Errors that were first recognized in fiscal year 1991-92 and compounded in subsequent fiscal years resulted in an overstatement of revenues in HPTF and an understatement of revenues in the Gifts, Bequests, and Deposits Investment Fund by \$359,493. A correction was posted in fiscal year 1997-98, which increased revenues in the Gifts, Bequests, and Deposits Investment Fund and decreased revenues in HPTF by \$359,493. However, the proper accounting treatment would have restated the beginning balances of the two funds. Approval to correct the error by restating the beginning fund balances was requested and obtained from OFM.



Note 8 Subsequent Event

School Based Outreach Services Program: The financial schedules include federal revenues and expenditures related to the School Based Outreach Services Program. These expenditures are partially funded by Medicaid. HCFA issued a financial management review report dated June 16, 2000 in which it cited several inadequacies regarding the time study procedures used in allocating the expenditures to Medicaid. The report did not question a specific amount. However, on August 31, 2000, HCFA disallowed School Based Outreach Services Program claims of \$55.9 million, \$33.4 million, and \$15.0 million for the three-month periods ended September 30, 1998, September 30, 1999, and December 31, 1999, respectively.

DCH plans to file a formal appeal with HCFA disputing these disallowances. DCH will not be able to collect \$33.4 million of accounts receivable and will need to repay \$55.9 million for this Program unless the appeal is resolved in DCH's favor.

While DCH is confident that it would ultimately prevail with its appeal based on HCFA's previous decision to continually accept these claims without expressing any concerns or offering guidance regarding their propriety, DCH plans to enter into good faith discussions with HCFA to resolve the issue. DCH is committed to resolving this issue in a fair and equitable fashion and maintains that a lengthy and costly appeal process is not in the best interest of either party.

# SUPPLEMENTAL FINANCIAL SCHEDULES

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**DEPARTMENT OF COMMUNITY HEALTH**  
**Schedule of Certain General Fund Assets and Liabilities**  
**As of September 30**

	<u>1999</u>	<u>1998</u>
<b>ASSETS</b>		
Current Assets:		
Accounts Receivable:		
Taxes, interest, and penalties	\$ 3,220,963	\$ 3,165,544
Amounts due from component units	627,999	669,298
Amounts due from federal agencies	394,451,324	692,254,636
Amounts due from local units	98,405,596	152,855,477
Miscellaneous	<u>104,465,350</u>	<u>128,789,791</u>
Total Accounts Receivable	\$ 601,171,232	\$ 977,734,746
 Inventories*	 \$ 1,033,992	 \$ 1,038,234
 Noncurrent Assets:		
Accounts Receivable:		
Taxes, interest, and penalties	\$ 3,226	\$ 4,421
Amounts due from federal agencies		\$ 5,484,395
Miscellaneous noncurrent assets	\$ 460,000	\$ 6,000,000
 <b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable	\$ 572,209,724	\$ 801,921,764
Due to other funds	\$ 32,108	\$ 40,434
Deferred revenue	\$ 10,963,736	\$ 7,267,752
Unearned receipts	\$ 4,095	\$ 143

The schedule of certain General Fund assets and liabilities is not a balance sheet and is not intended to report financial condition. The schedule presents certain significant assets and liabilities of the General Fund that result directly from the operations and are the responsibility of the Department of Community Health. The schedule does not include certain other assets, such as fixed assets (land, building, equipment), equity in Common Cash, cash in transit, and certain other liabilities, such as warrants outstanding, which are accounted for centrally by the State.

\* These amounts represent the cost of office and laboratory supplies on hand as of September 30.

**DEPARTMENT OF COMMUNITY HEALTH**  
Schedule of Expenditures of Federal Awards (1)  
For the Period October 1, 1997 through September 30, 1999

			For the Fiscal Year Ended September 30, 1998		
Federal Agency/Program	CFDA (2) Program Number	Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
<u>Financial Assistance</u>					
<u>U.S. Department of Agriculture</u>					
Direct Programs					
Child Nutrition Cluster					
School Breakfast Program	10.553		\$ 62,713	\$	\$ 62,713
National School Lunch Program	10.555		95,930		95,930
Total Child Nutrition Cluster			\$ 158,643	\$ 0	\$ 158,643
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557		7,468,227	103,991,577	111,459,804
Nutrition Program for the Elderly (Commodities) (NPE)	10.570			6,749,187	6,749,187
WIC Farmers' Market Nutrition Program	10.572		43,750	278,982	322,732
<b>Total U.S. Department of Agriculture</b>			<b>\$ 7,670,621</b>	<b>\$ 111,019,746</b>	<b>\$ 118,690,366</b>
<u>U.S. Department of Housing and Urban Development</u>					
Direct Programs					
Shelter Plus Care	14.238		\$	\$ 877,075	\$ 877,075
Housing Opportunities for Persons with AIDS	14.241		7,949	1,003,290	1,011,239
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900		231,852	686,790	918,642
<b>Total U.S. Department of Housing and Urban Development</b>			<b>\$ 239,801</b>	<b>\$ 2,567,155</b>	<b>\$ 2,806,956</b>
<u>U.S. Department of Justice</u>					
Direct Programs					
Crime Victim Assistance	16.575		\$ 99,060	\$ 6,508,677	\$ 6,607,737
Crime Victim Compensation	16.576		37,952	660,152	698,104
Byrne Formula Grant Program	16.579		(493,385)	16,614,791	16,121,406
Local Law Enforcement Block Grants Program	16.592			769,104	769,104
Residential Substance Abuse Treatment for State Prisoners	16.593			915,845	915,845
Executive Office for Weed and Seed	16.595				0
<b>Total U.S. Department of Justice</b>			<b>\$ (356,373)</b>	<b>\$ 25,468,568</b>	<b>\$ 25,112,196</b>
<u>U.S. Department of Labor</u>					
Direct Program					
Senior Community Service Employment Program	17.235		\$ 194,909	\$ 2,677,495	\$ 2,872,404
<b>Total U.S. Department of Labor</b>			<b>\$ 194,909</b>	<b>\$ 2,677,495</b>	<b>\$ 2,872,404</b>
<u>U.S. Department of Transportation</u>					
Pass-Through Program					
Michigan Department of State Police					
State and Community Highway Safety	20.600	OP-98-01	\$ 9,986	\$	\$ 9,986
State and Community Highway Safety	20.600	OP-99-02			0
State and Community Highway Safety	20.600	PS-98-01	24,539		24,539
State and Community Highway Safety	20.600	PS-99-01			0
State and Community Highway Safety	20.600	JT-97-08		(5,207)	(5,207)
State and Community Highway Safety	20.600	AL-98-01		682,211	682,211
State and Community Highway Safety	20.600	J7-99-06			0
State and Community Highway Safety	20.600	CP-98-01		202,538	202,538
State and Community Highway Safety	20.600	CP-99-10			0
<b>Total U.S. Department of Transportation</b>			<b>\$ 34,525</b>	<b>\$ 879,543</b>	<b>\$ 914,067</b>
<u>U.S. Environmental Protection Agency</u>					
Direct Program					
TSCA Title IV State Lead Grants: Certification of Lead-Based Professionals	66.707		\$ 129,292	\$ 40,920	\$ 170,212
<b>Total U.S. Environmental Protection Agency</b>			<b>\$ 129,292</b>	<b>\$ 40,920</b>	<b>\$ 170,212</b>

This schedule continued on next page.

<u>For the Fiscal Year Ended September 30, 1999</u>			Total Expended and Distributed for the
<u>Directly Expended</u>	<u>Distributed to Subrecipients</u>	<u>Total Expended and Distributed</u>	<u>Two-Year Period</u>
\$	\$	\$	\$
102,584	66,796	66,796	129,509
<u>102,584</u>	<u>66,796</u>	<u>102,584</u>	<u>198,514</u>
\$	\$	\$	\$
102,584	66,796	169,380	328,023
7,914,383	106,079,723	113,994,107	225,453,911
	6,564,597	6,564,597	13,313,784
97,943	428,664	526,607	849,339
<u>\$ 8,114,911</u>	<u>\$ 113,139,780</u>	<u>\$ 121,254,691</u>	<u>\$ 239,945,057</u>
\$	\$	\$	\$
774	1,166,699	1,166,699	2,043,774
431,461	689,683	690,457	1,701,696
	2,142,133	2,573,594	3,492,236
<u>\$ 432,236</u>	<u>\$ 3,998,515</u>	<u>\$ 4,430,751</u>	<u>\$ 7,237,706</u>
\$	\$	\$	\$
190,180	7,602,356	7,792,535	14,400,272
14,408	556,274	570,682	1,268,786
(986,561)	15,538,980	14,552,419	30,673,825
15,604	2,118,876	2,134,480	2,903,584
	2,256,552	2,256,552	3,172,397
	29,472	29,472	29,472
<u>\$ (766,369)</u>	<u>\$ 28,102,510</u>	<u>\$ 27,336,141</u>	<u>\$ 52,448,336</u>
\$	\$	\$	\$
175,496	2,680,825	2,856,321	5,728,725
<u>\$ 175,496</u>	<u>\$ 2,680,825</u>	<u>\$ 2,856,321</u>	<u>\$ 5,728,725</u>
\$	\$	\$	\$
24,533		24,533	34,519
65,276		65,276	65,276
		0	24,539
29,884		29,884	29,884
		0	(5,207)
		0	682,211
	1,011,288	1,011,288	1,011,288
		0	202,538
	180,295	180,295	180,295
<u>\$ 119,694</u>	<u>\$ 1,191,582</u>	<u>\$ 1,311,276</u>	<u>\$ 2,225,344</u>
\$	\$	\$	\$
166,104	30,700	196,804	367,015
<u>\$ 166,104</u>	<u>\$ 30,700</u>	<u>\$ 196,804</u>	<u>\$ 367,015</u>

**DEPARTMENT OF COMMUNITY HEALTH**  
Schedule of Expenditures of Federal Awards (1)  
For the Period October 1, 1997 through September 30, 1999  
Continued

Federal Agency/Program	CFDA (2) Program Number	Pass-Through Identification Number	For the Fiscal Year Ended September 30, 1998		
			Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
<b><u>U.S. Department of Education</u></b>					
Direct Programs					
Special Education Cluster					
Special Education: Grants to States	84.027		\$ 90,871	\$	\$ 90,871
Total Special Education Cluster			\$ 90,871	\$ 0	\$ 90,871
Safe and Drug-Free Schools and Communities - State Grants	84.186		195,799	3,969,049	4,164,848
Eisenhower Professional Development State Grants	84.281		291		291
Innovative Education Program Strategies	84.298		65		65
Total Direct Programs			\$ 287,027	\$ 3,969,049	\$ 4,256,076
Pass-Through Programs					
Michigan Department of Education					
Special Education - Grants for Infants and Families With Disabilities	84.181	1336/IACMHA	\$	\$ 91	\$ 91
Special Education - Grants for Infants and Families With Disabilities	84.181	1337/IACMHA	31,041	66,548	97,590
Special Education - Grants for Infants and Families With Disabilities	84.181	1338/IACMHA			0
Special Education - Grants for Infants and Families With Disabilities	84.181	1338/IACPHA			0
Special Education - Grants for Infants and Families With Disabilities	84.181	1339/IACMHA			0
Special Education - Grants for Infants and Families With Disabilities	84.181	1366/IACPHA		96,933	96,933
Special Education - Grants for Infants and Families With Disabilities	84.181	1337/IACPHA	113,555	24,200	137,755
Special Education - Grants for Infants and Families With Disabilities	84.181	1339/IACPHA			0
Special Education - Grants for Infants and Families With Disabilities	84.181	1330/IACPHA			0
Total Special Education - Grants for Infants and Families With Disabilities			\$ 144,596	\$ 187,772	\$ 332,368
Michigan Department of Education					
Safe and Drug-Free Schools and Communities - State Grants	84.186	S186A50023	\$	\$ 367,853	\$ 367,853
Safe and Drug-Free Schools and Communities - State Grants	84.186	S186A60023	143,433	(19,397)	124,036
Safe and Drug-Free Schools and Communities - State Grants	84.186	S186A70023	474,453	204,888	679,341
Safe and Drug-Free Schools and Communities - State Grants	84.186	S186A980023			0
Total Safe and Drug-Free Schools and Communities - State Grants			\$ 617,886	\$ 553,344	\$ 1,171,229
Total Pass-Through Programs			\$ 762,482	\$ 741,115	\$ 1,503,598
<b>Total U.S. Department of Education</b>			<b>\$ 1,049,509</b>	<b>\$ 4,710,164</b>	<b>\$ 5,759,673</b>
<b><u>U.S. Department of Health and Human Services</u></b>					
Direct Programs					
Aging Cluster					
Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	93.044		\$ 505,890	\$ 10,000,823	\$ 10,506,713
Special Programs for the Aging - Title III, Part C - Nutrition Services	93.045		860,508	15,562,375	16,422,883
Total Aging Cluster			\$ 1,366,398	\$ 25,563,198	\$ 26,929,596
Medicaid Cluster					
Medical Assistance Program	93.778		\$ 3,200,746,212	\$ 101,342,294	\$ 3,302,088,506
Total Medicaid Cluster			\$ 3,200,746,212	\$ 101,342,294	\$ 3,302,088,506
Special Programs for the Aging - Title VII, Chapter 3 - Programs for Prevention of Elder Abuse, Neglect, and Exploitation	93.041		\$	\$ 163,225	\$ 163,225
Special Programs for the Aging - Title VII, Chapter 2 - Long Term Care Ombudsman Services for Older Individuals	93.042			150,197	150,197
Special Programs for the Aging - Title III, Part F - Disease Prevention and Health Promotion Services	93.043			670,141	670,141
Special Programs for the Aging - Title III, Part D - In-Home Services for Frail Older Individuals	93.046			291,237	291,237
Special Programs for the Aging - Title IV - Training, Research and Discretionary Projects and Programs	93.048				0
Grants for Residential Treatment Programs for Pregnant and Postpartum Women	93.101		48,504	1,390,239	1,438,743

This schedule continued on next page.

For the Fiscal Year Ended September 30, 1999			Total Expended and Distributed for the Two-Year Period
Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	
<u>\$ 74,976</u>	<u>\$</u>	<u>\$ 74,976</u>	<u>\$ 165,847</u>
\$ 74,976	\$ 0	\$ 74,976	\$ 165,847
114,318	5,447,212	5,561,530	9,726,379
223		223	514
73		73	138
<u>\$ 189,591</u>	<u>\$ 5,447,212</u>	<u>\$ 5,636,802</u>	<u>\$ 9,892,878</u>
\$	\$	\$ 0	\$ 91
		0	97,590
20,001	65,938	85,939	85,939
59,706	106,600	166,306	166,306
1,562	30,206	31,769	31,769
		0	96,933
		0	137,755
86,759	571	87,330	87,330
<u>27,615</u>		<u>27,615</u>	<u>27,615</u>
<u>\$ 195,642</u>	<u>\$ 203,316</u>	<u>\$ 398,958</u>	<u>\$ 731,327</u>
\$	\$	\$ 0	\$ 367,853
		0	124,036
189,210	1,367,015	1,556,285	2,235,626
594		594	594
<u>\$ 189,864</u>	<u>\$ 1,367,015</u>	<u>\$ 1,556,879</u>	<u>\$ 2,728,109</u>
<u>\$ 385,507</u>	<u>\$ 1,570,331</u>	<u>\$ 1,955,838</u>	<u>\$ 3,459,435</u>
<u>\$ 575,097</u>	<u>\$ 7,017,543</u>	<u>\$ 7,592,640</u>	<u>\$ 13,352,314</u>
\$ 541,437	\$ 10,393,732	\$ 10,935,169	\$ 21,441,882
<u>862,309</u>	<u>15,624,430</u>	<u>16,486,739</u>	<u>32,909,622</u>
<u>\$ 1,403,746</u>	<u>\$ 26,018,162</u>	<u>\$ 27,421,908</u>	<u>\$ 54,351,504</u>
<u>\$ 3,414,985,247</u>	<u>\$ 117,108,892</u>	<u>\$ 3,532,094,139</u>	<u>\$ 6,834,182,645</u>
<u>\$ 3,414,985,247</u>	<u>\$ 117,108,892</u>	<u>\$ 3,532,094,139</u>	<u>\$ 6,834,182,645</u>
\$	\$ 173,690	\$ 173,690	\$ 336,915
	254,633	254,633	404,830
	549,770	549,770	1,219,911
	405,008	405,008	696,245
	38,466	38,466	38,466
		0	1,438,743



DEPARTMENT OF COMMUNITY HEALTH  
Schedule of Expenditures of Federal Awards (1)  
For the Period October 1, 1997 through September 30, 1999  
Continued

Federal Agency/Program	CFDA (2) Program Number	Pass-Through Identification Number	For the Fiscal Year Ended September 30, 1998		
			Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
Comprehensive Community Mental Health Services for Children With Serious Emotional Disturbances (SED)	93.104		4,341	213,669	218,010
Maternal and Child Health Federal Consolidated Programs	93.110		50,543	301,959	352,501
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116		211,057	534,292	745,349
Primary Care Services - Resource Coordination and Development Primary Care Offices	93.130		98,145	126,500	224,645
Injury Prevention and Control Research and State and Community Based Programs	93.136		208,270	119,821	328,091
Projects for Assistance in Transition from Homelessness (PATH)	93.150		6,820	376,180	383,000
Coordinated HIV Services and Access to Research for Children, Youth, Women, and Families	93.153		66,213	734,522	800,735
Health Program for Toxic Substances and Disease Registry	93.161		483,339	38,622	521,961
Grants for State Loan Repayment	93.165		403,319		403,319
Disabilities Prevention	93.184			(772)	(772)
Cooperative Agreements for Drug Abuse Treatment Improvement Projects in Target Cities	93.196		13,199	2,661,675	2,674,874
Childhood Lead Poisoning Prevention Projects - State and Community-Based Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	93.197		42,508	846,742	889,250
Family Planning - Services	93.217		651,406	4,197,241	4,848,646
Traumatic Brain Injury	93.234		607		607
Abstinence Education	93.235			1,899,560	1,899,560
Cooperative Agreements for State Treatment Outcomes and Performance Pilot Studies Enhancement	93.238				0
Immunization Grants	93.268		1,132,992	7,981,272	9,114,264
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283		357,240	543,896	901,136
Comparative Medicine	93.306		12,886		12,886
Refugee and Entrant Assistance - Discretionary Grants	93.576			95,705	95,705
Developmental Disabilities Basic Support and Advocacy Grants	93.630		605,853	1,500,286	2,106,139
State Children's Insurance Program	93.767				0
Health Care Financing Research, Demonstrations and Evaluations	93.779		5,926	552,976	558,902
Grants to States for Operation of Offices of Rural Health	93.913			63,700	63,700
HIV Care Formula Grants	93.917		2,526,446	3,269,330	5,795,776
Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs	93.919		773,908	5,070,267	5,844,175
Healthy Start Initiative	93.926			50,000	50,000
HIV Prevention Activities - Health Department Based	93.940		820,127	5,050,821	5,870,948
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944		256,394	1,613,816	1,870,210
Community-Based Comprehensive HIV/STD/TB Outreach Services for High Risk Substance Abusers Demonstration Program	93.949		565	353,034	353,599
Demonstration Grants to States with Respect to Alzheimer's Disease	93.951		3,177	602,966	606,144
Block Grants for Community Mental Health Services	93.958		294,049	10,323,511	10,617,559
Block Grants for Prevention and Treatment of Substance Abuse	93.959		554,967	55,462,468	56,017,435
Preventive Health Services: Sexually Transmitted Diseases Control Grants	93.977		282,609	1,484,665	1,767,274
Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	93.988		301,815	347,600	649,415
Preventive Health and Health Services Block Grant	93.991		204,846	6,691,239	6,896,085
Maternal and Child Health Services Block Grant to the States	93.994		8,806,241	12,578,177	21,384,418
Vital Statistics Cooperative Study	93	(3)	496,371		496,371

*This schedule continued on next page.*

For the Fiscal Year Ended September 30, 1999			Total Expended and Distributed for the Two-Year Period
Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	
3,306	893,951	897,257	1,115,267
19,313	301,088	320,402	672,903
227,672	538,147	765,818	1,511,167
201,025	48,775	249,800	474,445
161,684	234,833	396,517	724,608
15,383	506,410	521,793	904,793
	830,048	830,048	1,630,783
527,027		527,027	1,048,988
823,204		823,204	1,226,523
		0	(772)
12,410	1,432,378	1,444,788	4,119,662
318,519	437,776	756,295	1,645,545
715,059	4,553,871	5,268,930	10,117,576
	68,266	68,266	68,873
	1,821,345	1,821,345	3,720,905
31,920	32,212	64,132	64,132
1,046,128	4,733,382	5,779,510	14,893,773
703,919	450,031	1,153,951	2,055,087
		0	12,886
	31,522	31,522	127,227
766,975	1,647,104	2,414,079	4,520,218
14,101,907		14,101,907	14,101,907
1,700	807,364	809,064	1,367,966
	211,982	211,982	275,682
4,352,138	3,664,063	8,016,201	13,811,977
704,384	4,174,681	4,879,065	10,723,240
	(539)	(539)	49,462
331,143	5,877,841	6,208,984	12,079,933
475,125	1,848,335	2,323,461	4,193,671
		0	353,599
10,410	230,216	240,626	846,770
170,865	10,414,754	10,585,618	21,203,178
753,723	59,965,573	60,719,297	116,736,731
402,983	1,586,632	1,989,615	3,756,888
420,863	290,965	711,828	1,361,243
217,776	7,556,810	7,774,587	14,670,672
5,302,377	11,179,111	16,481,488	37,865,906
495,071		495,071	991,442

**DEPARTMENT OF COMMUNITY HEALTH**  
Schedule of Expenditures of Federal Awards (1)  
**For the Period October 1, 1997 through September 30, 1999**  
*Continued*

Federal Agency/Program	CFDA (2) Program Number	Pass-Through Identification Number	For the Fiscal Year Ended September 30, 1998		
			Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
National Death Index	93	(3)	\$ 21,551	\$	\$ 21,551
American Stop Smoking Intervention Study for Cancer Prevention	93.N01CN15374	(3)	446,600	958,491	1,405,090
State Demand and Needs Assessment Study	93.270960017	(3)	9,316	562,123	571,439
Implementation of Uniform Alcohol and Drug Abuse Data Collection System	93	(3)	105,688		105,688
Demonstration of the Usefulness of Client Level Data for Evaluation of HIV/AIDS Services Program	93	(3)		190,515	190,515
Social Security Administration - Birth Enumeration	93	(3)	194,158		194,158
Social Security Administration - Death Records	93	(3)	51,949		51,949
Minority Health - Community Capacity Building	93.87T26266901D	(3)			0
Tobacco Investigations	93.223984827	(3)			0
Total Direct Programs			<u>\$ 3,222,666,552</u>	<u>\$ 256,967,401</u>	<u>\$ 3,479,633,953</u>
Pass-Through Programs					
Southeastern Michigan Health Association HIV Cluster					
HIV Emergency Relief Formula Grants	93.915	99032	\$ 321,111	\$	\$ 321,111
Total HIV Cluster			<u>\$ 321,111</u>	<u>\$ 0</u>	<u>\$ 321,111</u>
University of Illinois Health Program for Toxic Substances and Disease Registry	93.161	H75/ATH598339-06	\$ 24,797	\$ 0	\$ 24,797
William Beaumont Hospital Centers for Disease Control and Prevention: Investigations and Technical Assistance	93.283	14-48774	\$ 5,520	\$ 0	\$ 5,520
Family Independence Agency Temporary Assistance for Needy Families	93.558	None Assigned	\$ 6,902,512	\$	\$ 6,902,512
Temporary Assistance for Needy Families	93.558	None Assigned			
Temporary Assistance for Needy Families	93.558	None Assigned			
Total Temporary Assistance for Needy Families			<u>\$ 6,902,512</u>	<u>\$ 0</u>	<u>\$ 6,902,512</u>
Family Independence Agency Child Care Mandatory and Matching Funds of the Child Care Development Funds	93.596	IA-99005	\$ 0	\$ 0	\$ 0
Michigan Department of Education Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	2777-BI297	\$ 23,012	(3,000)	\$ 20,012
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	2778-INFRA198	59,815		59,815
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	2779-INFRA299			0
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	2768-EXP498	30,770		30,770
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	2769-EXP499			0
Total Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems			<u>\$ 113,597</u>	<u>\$ (3,000)</u>	<u>\$ 110,597</u>
Family Independence Agency Paternity Registry	93	(3)	\$	\$	\$ 0
Total Pass-Through Programs			<u>\$ 7,367,537</u>	<u>\$ (3,000)</u>	<u>\$ 7,364,537</u>
<b>Total U.S. Department of Health and Human Services</b>			<u><b>\$ 3,230,034,089</b></u>	<u><b>\$ 256,964,401</b></u>	<u><b>\$ 3,486,998,490</b></u>
Total Financial Assistance			<u>\$ 3,238,996,372</u>	<u>\$ 404,327,992</u>	<u>\$ 3,643,324,364</u>

*This schedule continued on next page.*

For the Fiscal Year Ended September 30, 1999			Total Expended and Distributed for the Two-Year Period
Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	
\$ 32,628	\$	\$ 32,628	\$ 54,179
452,935	1,603,170	2,056,105	3,461,195
20,076	187,577	207,652	779,091
104,197		104,197	209,885
	200,611	200,611	391,126
142,078		142,078	336,236
54,052		54,052	106,000
	25,000	25,000	25,000
34,369	528,597	562,966	562,966
<u>\$ 3,450,543,337</u>	<u>\$ 273,462,505</u>	<u>\$ 3,724,005,842</u>	<u>\$ 7,203,639,795</u>
\$ 3,549	\$	\$ 3,549	\$ 324,660
<u>\$ 3,549</u>	<u>\$ 0</u>	<u>\$ 3,549</u>	<u>\$ 324,660</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 24,797</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 5,520</u>
\$ 7,185,036	\$	\$ 0	\$ 6,902,512
4,000		7,185,036	7,185,036
<u>\$ 7,189,036</u>	<u>\$ 0</u>	<u>\$ 7,189,036</u>	<u>\$ 14,091,548</u>
<u>\$ 83,400</u>	<u>\$ 40,000</u>	<u>\$ 123,400</u>	<u>\$ 123,400</u>
\$	\$	\$ 0	\$ 20,012
7,293		7,293	67,108
67,629		67,629	67,629
1,693		1,693	32,463
33,785		33,785	33,785
<u>\$ 110,400</u>	<u>\$ 0</u>	<u>\$ 110,400</u>	<u>\$ 220,997</u>
<u>\$ 157,692</u>	<u>\$</u>	<u>\$ 157,692</u>	<u>\$ 157,692</u>
<u>\$ 7,544,077</u>	<u>\$ 40,000</u>	<u>\$ 7,584,077</u>	<u>\$ 14,948,615</u>
<u>\$ 3,458,087,414</u>	<u>\$ 273,502,505</u>	<u>\$ 3,731,589,920</u>	<u>\$ 7,218,588,410</u>
<u>\$ 3,466,904,583</u>	<u>\$ 429,663,960</u>	<u>\$ 3,896,568,543</u>	<u>\$ 7,539,892,907</u>

DEPARTMENT OF COMMUNITY HEALTH  
Schedule of Expenditures of Federal Awards (1)  
For the Period October 1, 1997 through September 30, 1999  
Continued

			For the Fiscal Year Ended September 30, 1998		
Federal Agency/Program	CFDA (2) Program Number	Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
<u>Nonfinancial Assistance</u>					
<u>U.S. Department of Agriculture</u>					
Direct Program					
Food Distribution	10.550		\$ 19,088	\$	\$ 19,088
Total U.S. Department of Agriculture			<u>\$ 19,088</u>	<u>\$ 0</u>	<u>\$ 19,088</u>
<u>U.S. Department of Health and Human Services</u>					
Direct Programs					
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116		\$ 86,250	\$	\$ 86,250
Immunization Grants	93.268		23,406,961		23,406,961
HIV Prevention Activities - Health Department Based	93.940		42,110		42,110
Preventive Health Services - Sexually Transmitted Diseases Control Grants	93.977		183,098		183,098
Preventive Health and Health Services Block Grant	93.991		<u>72,572</u>		<u>72,572</u>
Total U.S. Department of Health and Human Services			<u>\$ 23,790,991</u>	<u>\$ 0</u>	<u>\$ 23,790,991</u>
Total Nonfinancial Assistance			<u>\$ 23,810,079</u>	<u>\$ 0</u>	<u>\$ 23,810,079</u>
Total Expenditures of Federal Awards			<u>\$ 3,262,806,451</u>	<u>404,327,992</u>	<u>\$ 3,667,134,443</u>

(1) Basis of Presentation: This schedule includes the federal grant activity of the Department of Community Health and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial schedules.

(2) CFDA is defined as *Catalog of Federal Domestic Assistance*.

(3) CFDA number not available. Number derived from federal agency number and grant or control number, if available.

<u>For the Fiscal Year Ended September 30, 1999</u>			Total Expended and Distributed for the Two-Year Period
<u>Directly Expended</u>	<u>Distributed to Subrecipients</u>	<u>Total Expended and Distributed</u>	
\$ 25,209	\$	\$ 25,209	\$ 44,297
<u>\$ 25,209</u>	<u>\$ 0</u>	<u>\$ 25,209</u>	<u>\$ 44,297</u>
\$ 87,134	\$	\$ 87,134	\$ 173,384
22,954,987		22,954,987	46,361,948
78,760		78,760	120,870
133,769		133,769	316,867
<u>78,679</u>	<u></u>	<u>78,679</u>	<u>151,251</u>
<u>\$ 23,333,329</u>	<u>\$ 0</u>	<u>\$ 23,333,329</u>	<u>\$ 47,124,320</u>
<u>\$ 23,358,538</u>	<u>\$ 0</u>	<u>\$ 23,358,538</u>	<u>\$ 47,168,617</u>
<u>\$ 3,490,263,121</u>	<u>\$ 429,663,960</u>	<u>\$ 3,919,927,081</u>	<u>\$ 7,587,061,524</u>

## OTHER REQUIRED SCHEDULES

DEPARTMENT OF COMMUNITY HEALTH  
Summary Schedule of Prior Audit Findings  
As of July 21, 2000

**PRIOR AUDIT FINDINGS RELATED TO THE FINANCIAL SCHEDULES  
AND FINANCIAL STATEMENTS**

Audit Findings That Have Been Fully Corrected:

**Audit Period:** October 1, 1995 through September 30, 1997

**Finding Number:** 1

**Finding:** The Department of Community Health's (DCH's) internal control structure related to the Community Mental Health Services (CMHS) Program was inadequate.

**Comments:** DCH complied with the corresponding recommendation.

DCH has implemented procedures to strengthen its internal control structure related to the CMHS Program to ensure the correct coding of CMHS appropriations.

DCH has also implemented procedures to strengthen its internal control structure to ensure that accounts payable for the CMHS Program are properly recorded. The fiscal year-end accrual methodologies utilized by DCH received written approval from the Office of Financial Management, Department of Management and Budget, on December 14, 1999.

Audit Findings Not Corrected or Partially Corrected:

**Audit Period:** October 1, 1995 through September 30, 1997

**Finding Number:** 2

**Finding:** DCH's internal control procedures were not effectively used to ensure accurate preparation of the schedule of federal financial assistance.

**Comments:** DCH has taken steps to comply with the corresponding recommendation.



DCH has implemented steps to improve the effectiveness of its internal control procedures to ensure accurate preparation of the schedule of expenditures of federal awards (SEFA), which replaced the schedule of federal financial assistance. DCH will be issuing written guidelines for staff to follow in preparing the SEFA, with special emphasis given to the proper coding for the few nonroutine, year-end only accounting entries that have caused errors in the past. In addition, DCH will be developing additional Management Information Database (MIDB) queries to further aid future reconciliations. Finally, DCH will hold internal training sessions prior to completing the SEFAs to ensure that all staff are properly trained to prepare components of the SEFAs.

**Audit Period:** October 1, 1995 through September 30, 1997

**Finding Number:** 3

**Finding:** DCH did not maintain effective internal control procedures over the time and attendance process. Internal control weaknesses were noted in the functions of records retention, document preparation, segregation of duties, and reconciliation.

**Comments:** DCH has substantially complied with the corresponding recommendation.

DCH agreed with the recommendation and has taken steps to strengthen the internal control procedures over the time and attendance process where administratively feasible. With centralized control over all of the personnel functions now in place, procedures are in place to effectively manage the records necessary to support personnel and payroll transactions.

**Audit Period:** October 1, 1995 through September 30, 1997

**Finding Number:** 5

**Finding:** DCH's internal auditor did not perform financial audits to identify weaknesses in DCH's internal control structure. Also, DCH's internal auditor did not develop a formal audit plan and have it approved by the DCH director.

**Comments:** DCH has taken steps to comply with the corresponding recommendations.

The internal auditor has started to perform financial and/or program related audits of DCH's operations to identify weaknesses in its internal control structure. A formal audit plan was developed and approved for fiscal years 1998-99 and 1999-2000.

#### **PRIOR AUDIT FINDINGS RELATED TO FEDERAL AWARDS**

##### Audit Findings That Have Been Fully Corrected:

**Audit Period:** October 1, 1995 through September 30, 1997

**Finding Number:** 7

**Finding:** DCH's internal control procedures were not properly designed to help ensure that Medicaid substance abuse payments were made in accordance with State and federal program requirements.

**Comments:** DCH complied with the corresponding recommendation.

Effective with the October 1, 1998 revision in the program from a fee-for-service to a capitated payment system, the 15 regional coordinating agencies assumed total responsibility for authorizing and monitoring intensive substance abuse services. The Bureau of Substance Abuse Services, through its contract monitoring process, provides oversight to ensure that payments for substance abuse services comply with State and federal program requirements.

##### Audit Findings Not Corrected or Partially Corrected:

**Audit Period:** October 1, 1995 through September 30, 1997

**Finding Number:** 4

**Finding:** DCH's internal controls did not ensure that payroll costs met federal time distribution documentation standards for payroll charges to federal programs.

**Comments:** DCH has taken steps to comply with the corresponding recommendation.

DCH has implemented procedures that satisfy all federal time distribution standards for employees who devote 100% of their time to federal projects. The biweekly time certification process provides sufficient documentation to satisfy the U.S. Office of Management and Budget (OMB) Circular A-87 requirements.

DCH is in the process of identifying and implementing appropriate procedures sufficient to meet federal documentation standards for those employees who devote time to more than one federal or State program. These employees will account for their time through one of the approved methods identified in the report prepared by DMG-Maximus. DCH contracted with DMG-Maximus to develop its cost allocation plan.

**Audit Period:** October 1, 1995 through September 30, 1997

**Finding Number:** 6

**Finding:** DCH's internal control structure did not ensure that corrective action was taken within 6 months after receipt of subrecipient audit reports.

**Comments:** DCH has taken steps to comply with the corresponding recommendation.

A DCH all-inclusive data file of grantee agencies is maintained in an electronic spreadsheet format and includes grant appropriation data necessary to identify agencies required to have a Single Audit under OMB Circular A-133. This database is capable of handling a tracking log to monitor the timely receipt of the required reports and follow up on any delinquencies. The tracking log is also used to monitor the timely review of audit reports so that corrective action can be taken within 6 months after receipt of the subrecipient audit reports.

DEPARTMENT OF COMMUNITY HEALTH

Corrective Action Plan

As of October 23, 2000

**FINDINGS RELATED TO THE FINANCIAL SCHEDULES**

**Finding Number:** 399901

**Finding Title:** Recording of Revenues

**Management Views:** The Department of Community Health (DCH) agrees with the finding and recommendation and is committed to improving its procedures to ensure that nonfederal revenues are properly recorded.

**Corrective Action:** All journal vouchers related to year-end cut-off transactions will be thoroughly reviewed and evaluated by the responsible accounting supervisor to ensure that revenues are properly classified. An instructional memorandum has been issued to pertinent accounting staff clarifying all year-end closing procedures, particularly those issued by the Department of Management and Budget (DMB), and emphasizing internal control issues to ensure that revenue is correctly recorded.

**Anticipated Completion Date:** Completed and ongoing

**Responsible Individual:** Lyle Ross/James R. Brandell

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**Finding Number:** 399902

**Finding Title:** Medicaid Accrual

**Management Views:** DCH agrees with the finding and recommendation and is committed to making sure that all of its accruals are accurate.

**Corrective Action:** DCH will continue to refine and develop monitoring procedures to ensure that calculations used to estimate accruals for all programs are free of material misstatement and based on the most accurate and

reliable data available. In addition, DCH will continue to work in partnership with the Office of Financial Management to continually review and refine the accrual methodology. However, for the inpatient hospital accrual, annual comparisons of estimated to actual figures are not expected to result in materially more accurate information; therefore, the potential benefit does not warrant the additional administrative requirements required to perform these additional steps.

DCH will also implement procedures to compare long-term care cost settlements to actual data on an annual basis and is in the process of securing additional reporting that will permit the accurate monitoring of the long-term care "pipeline" accrual.

**Anticipated Completion Date:** Ongoing continuous process  
**Responsible Individual:** Stan Wever/James R. Brandell

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**Finding Number:** 399903  
**Finding Title:** Cash Management  
**Management Views:** DCH agrees with the finding and recommendations and will initiate corrective action as necessary to improve its internal control over its cash management procedures. However, it is important to point out that the deficiencies related to only \$114 million of \$3.5 billion and \$4.0 billion that was drawn in fiscal year 1997-98 and fiscal year 1998-99, respectively. Based on materiality, DCH maintains that it was in substantial compliance with the federal Cash Management Improvement Act (CMIA).  
**Corrective Action:** To improve internal control over its cash management procedures, DCH has reviewed or will review and evaluate its staffing needs, develop and implement written procedures for each program covered under

the CMIA, initiate cross-training of staff, develop a single standardized draw form for use by all programs, develop and implement review and approval procedures for all draws, and conduct training sessions. The procedures will require all underdraws related to CMIA agreements to be reported to the Michigan Department of Treasury.

**Anticipated Completion Date:** Completed and ongoing

**Responsible Individual:** Lyle Ross/James R. Brandell

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**Finding Number:** 399904

**Finding Title:** Use of State Funds

**Management Views:** DCH agrees with the finding and recommendation and is committed to complying with Section 18.1395(5) of the *Michigan Compiled Laws*.

**Corrective Action:** The Budget and Accounting Divisions will revise their closing procedures as necessary to ensure compliance.

**Anticipated Completion Date:** Completed and ongoing

**Responsible Individual:** Lyle Ross/James R. Brandell

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**Finding Number:** 399905

**Finding Title:** Personnel and Payroll Internal Control

**Management Views:** DCH conceptually agrees with the finding and recommendation and will strive to improve its internal control over the personnel and payroll process; however, staffing levels and time constraints sometimes simply do not permit full compliance with optimum controls.

**Corrective Action:** DCH personnel will monitor and strive to minimize instances in which employees enter transactions for themselves. Employees will not be permitted to enter transactions for themselves that have monetary implications and the reasons for all other instances will

be fully documented. DCH will reemphasize and disseminate instructional directives as necessary to ensure that access to the system is deleted for users who no longer work in personnel units, that the biweekly transactions are consistently reconciled, and that employees' histories are updated on the system as necessary.

**Anticipated Completion Date:** Completed and ongoing

**Responsible Individual:** Tom Adams

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**Finding Number:** 399906

**Finding Title:** Encumbrances

**Management Views:** DCH agrees with the finding and recommendation and is committed to improving its procedures to ensure that encumbrances are properly recorded.

**Corrective Action:** Detailed written instructions from the State's Year-End Closing Guide and the DMB Administrative Guide were handed out and discussed in a September 2000 pre-closing training session for all accounting staff involved in accounts payable and encumbrances. In addition, formalized review of the encumbrance process will be developed by December 1, 2000.

**Anticipated Completion Date:** Completed and ongoing

**Responsible Individual:** Lyle Ross/James R. Brandell

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**Finding Number:** 399907

**Finding Title:** Schedule of Expenditures of Federal Awards (SEFA)

**Management Views:** DCH agrees with the finding and recommendation and is committed to making further improvements in its procedures to ensure accurate preparation of the SEFA.

**Corrective Action:** DCH will be issuing written guidelines for staff to follow in preparing the SEFA, with special emphasis given to the proper coding for the few nonroutine year-end only

accounting entries that have caused errors in the past. DCH is also currently in the process of developing standard queries to aid in future reconciliations. Finally, internal training sessions will be conducted prior to completing subsequent SEFAs to ensure that staff are properly trained to prepare their components of the SEFAs.

**Anticipated Completion Date:** Completed and ongoing

**Responsible Individual:** Lyle Ross/James R. Brandell

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**Finding Number:** 399908

**Finding Title:** Internal Auditor Functions

**Management Views:** DCH generally agrees with the finding and recommendation and is committed to assigning a higher priority to the internal audit functions specified in Section 18.1486(4) of the *Michigan Compiled Laws*.

**Corrective Action:** The internal audit function within DCH has recently undergone some organizational changes and one section within the Office of Audit has been assigned duties consistent with the requirements of the *Michigan Compiled Laws*. This section has begun to perform audits of DCH's financial activities and operations and future activities that comply with these requirements will be scheduled through the annual audit planning process.

**Anticipated Completion Date:** Ongoing

**Responsible Individual:** James B. Hennessey

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## FINDINGS RELATED TO FEDERAL AWARDS

**Finding Number:** 399909

**Finding Title:** School Based Outreach Services

**Management Views:** DCH disagrees with HCFA's conclusion that it was not in compliance with federal regulations for the School Based Outreach Services Program and has filed a formal appeal with the Departmental Appeals Board, U.S. Department of Health and Human Services.

**Corrective Action:** While DCH is confident that it would ultimately prevail with its appeal based on HCFA's previous decision to continually accept these claims without expressing any concerns or offering guidance regarding their propriety, DCH has entered into good faith discussions with HCFA to resolve the issue. DCH is committed to resolving this issue in a fair and equitable fashion and maintains that a lengthy and costly appeal process is not in the best interest of either party. DCH is optimistic that an amicable resolution can be reached in the near future that will be significantly less than the amount questioned in the audit, which represented the entire claim for administrative outreach services.

**Anticipated Completion Date:** Negotiations are ongoing.

**Responsible Individual:** David C. Viele

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**Finding Number:** 399910

**Finding Title:** Home Health Care

**Management Views:** DCH agrees with the finding and will improve its monitoring activities of home health providers and will follow up with the Family Independence Agency (FIA) as necessary to ensure that payments are properly processed and that cases are managed in accordance with established procedures for the Home Help Program.

**Corrective Action:** DCH has developed and implemented a post payment review process to ensure that home health care services are being paid in accordance with program requirements. On-site visits were started in May 2000, and three have been completed as of October 15, 2000. In response to the finding originally set forth in the concurrent performance audit of Home Health Care, FIA committed to taking corrective action to ensure that local county offices adhered to established procedures for processing payments and managing Home Help Program cases. DCH will initiate discussions and follow up with FIA as necessary to ensure that corrective action has, in fact, been implemented.

**Anticipated Completion Date:** Home Health Program Monitoring - Completed  
Home Help Program - Ongoing

**Responsible Individual:** Home Health - James Hornyak  
Home Help - Toni Hornberger, FIA

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**Finding Number:** 399911

**Finding Title:** Personnel-Payroll Cost Distributions

**Management Views:** DCH agrees with the finding and recommendations and is committed to achieving full compliance with U.S. Office of Management and Budget Circular A-87.

**Corrective Action:** Section managers will be issued a directive reminding them that certifications cannot exceed a six-month period. In addition, the Office of Services to the Aging has implemented procedures to adequately document and account for the time spent and charged by employees who work on more than one federal program.

**Anticipated Completion Date:** Completed and ongoing

**Responsible Individual:** Stan Wever/James R. Brandell

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**Finding Number:** 399912  
**Finding Title:** Special Adjustor Payments  
**Management Views:** DCH agrees with the finding and recommendation and is committed to ensuring accurate application of the methodologies for future drawdowns.  
**Corrective Action:** To avoid overpayments, review procedures have been established to ensure the accuracy of any special adjustor payments calculated jointly between DCH and the DMB Office of Health and Human Services. The calculations will be approved in writing by an appropriate authority within DCH prior to drawing down Medicaid federal match.  
**Anticipated Completion Date:** Completed  
**Responsible Individual:** Stephen Fitton

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**Finding Number:** 399913  
**Finding Title:** Medicaid Management Information Systems (MMIS)  
**Management Views:** DCH agrees with the finding and will take steps to ensure that incarcerated Medicaid recipients are identified and inactivated and that risk assessments of MMIS are performed on a periodic basis.  
**Corrective Action:** FIA has agreed to do both the match and the cleanup that goes along with the match. The current match being done between FIA and the Department of Corrections to identify food stamp recipients has identified some incarcerated recipients. Once identified, they are referred to a caseworker who reviews the case to determine if the recipient is also enrolled in Medicaid.  
  
A periodic MMIS risk assessment was started in May 2000.  
**Anticipated Completion Date:** Incarcerated Recipients - January 2001  
Risk Assessment - March 2001

**Responsible Individual:** Incarcerated Recipients - Denise Holmes  
Risk Assessment - James B. Hennessey

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**Finding Number:** 399914

**Finding Title:** Maternal and Child Health Services Block Grant to the States (MCH)

**Management Views:** DCH conceptually agrees with the recommendation that it can improve its control procedures commensurate with associated risk to ensure that claims are properly paid; however, DCH does not agree that it lacks control procedures to detect payments to unauthorized providers. System edits are in place that will detect claims from unauthorized providers that exceed predefined parameters.

**Corrective Action:** DCH will develop and implement a post payment review process to ensure, on a sample basis, that claims are being paid in accordance with program requirements. System edits are currently in place and set at an acceptable threshold to minimize instances of payments being made to unauthorized providers. The exception cited in the finding is as an example of a claim that was paid because the dollar amount was under the predefined threshold.

**Anticipated Completion Date:** January 31, 2000

**Responsible Individual:** James Hornyak

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## Glossary of Acronyms and Terms

AIDS	acquired immune deficiency syndrome.
CFDA	<i>Catalog of Federal Domestic Assistance.</i>
CMHS	Community Mental Health Services.
CMIA	federal Cash Management Improvement Act.
CSHCS	Children's Special Health Care Services.
DCH	Department of Community Health.
DMB	Department of Management and Budget.
FIA	Family Independence Agency.
financial audit	An audit designed to provide reasonable assurance about whether the financial schedules and financial statements of an audited entity are fairly presented in conformity with generally accepted accounting principles.
GAAP	generally accepted accounting principles.
GASB	Governmental Accounting Standards Board.
HCFA	U.S. Health Care Financing Administration.
HIV	human immunodeficiency virus.
HPTF	Hospital Patients' Trust Fund.

internal control	A process, effected by an entity's management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (a) reliability of financial reporting, (b) effectiveness and efficiency of operations, and (c) compliance with applicable laws and regulations.
low-risk auditee	As provided for in OMB Circular A-133, an auditee that may qualify for reduced federal audit coverage if it receives an annual Single Audit and if it meets other criteria related to prior audit results. In accordance with State statute, this Single Audit was conducted on a biennial basis; consequently, this auditee is not considered a low-risk auditee.
material misstatement	A misstatement in the financial schedules or financial statements that causes the schedules or statements to not present fairly the financial position or the results of operations in conformity with generally accepted accounting principles.
material noncompliance	Violations of laws and regulations that could have a direct and material effect on major federal programs or on financial schedule or statement amounts.
material weakness	A condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that either misstatements in amounts that would be material in relation to the financial schedules or financial statements being audited or noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

MCH	Maternal and Child Health Services Block Grant to the States.
mission	The agency's main purpose or the reason the agency was established.
MMIS	Medicaid Management Information System.
MSA	Medical Services Administration.
OFM	Office of Financial Management.
OMB	U.S. Office of Management and Budget.
OQA	Office of Quality Assurance.
OSA	Office of Services to the Aging.
questioned costs	Costs tentatively identified as unallowable, undocumented, unapproved, or unreasonable. These costs are subject to disallowance by the federal government.
reportable condition	A matter coming to the auditor's attention relating to a significant deficiency in the design or operation of internal control that, in the auditor's judgment, could adversely affect DCH's ability to (1) record, process, summarize and report financial data consistent with the assertions of management in the financial schedules or financial statements or (2) administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants.
SEFA	schedule of expenditures of federal awards.

Single Audit	A financial audit, performed in accordance with the Single Audit Act Amendments of 1996, that is designed to meet the needs of all federal grantor agencies and other financial report users. In addition to performing the audit in accordance with the requirements of generally accepted auditing standards and the standards applicable to financial audits contained in <i>Government Auditing Standards</i> issued by the Comptroller General of the United States, a Single Audit requires the assessment of compliance with requirements that could have a direct and material effect on a major federal program and the consideration of internal control over compliance in accordance with OMB Circular A-133.
SOMCAFR	<i>State of Michigan Comprehensive Annual Financial Report.</i>
STD	sexually transmitted disease.
subrecipient	A nonfederal entity that receives federal awards through another nonfederal entity to carry out a federal program.
TB	tuberculosis.
TSCA	Toxic Substances Control Act.
unqualified opinion	An auditor's opinion in which the auditor states, without reservation, that the financial schedules and financial statements are fairly presented in conformity with generally accepted accounting principles or an auditor's opinion in which the auditor states, without reservation, that the audited agency complied in all material respects, with the cited requirements that are applicable to each major federal program.
WIC	Women, Infants, and Children.